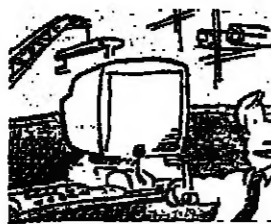


FINANCIAL TIMES



Spectroscopy
Infra-red window
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World Business Newspaper <http://www.ft.com>

TUESDAY DECEMBER 31 1996/WEDNESDAY JANUARY 1 1997

Up to 300 dead or hurt in blast on Indian train

Up to 300 people are feared dead or injured in a bomb explosion on a crowded train in India's north-eastern state of Assam. Four carriages and the locomotive of the Delhi-bound Brahmaputra Mail were wrecked as the train left the small town of Kokrajhar. Rescue work was hampered by the remoteness of the location. No organisation had last night claimed responsibility for the attack, but suspicion fell on activists seeking a separate homeland in the isolated state. Page 2

Agreement 'imminent' on Hebron

Israel and the Palestinian Authority said they were on the brink of an agreement on Israeli redeployment from most of the Israeli-occupied West Bank town of Hebron. Israeli defence minister Yitzhak Mordechai (left) said he expected an accord soon if Israeli and Palestinian negotiating teams could resolve the few remaining issues. This would pave the way for a summit meeting between Israeli prime minister Benjamin Netanyahu and Palestinian Authority president Yasser Arafat. Page 3

Kinkel accusing of meddling: Politicians of all UK parties accused German foreign minister Klaus Kinkel of interfering in British internal affairs when he suggested the British people should vote for further European integration in next year's general election. Page 10

Foreign banks may get US tax refunds: Foreign banks and insurance companies could reclaim billions of dollars in overpaid US taxes after a court defeat for the Internal Revenue Service this month threw into question the way it has been assessing tax on branch operations. Page 3

France Télécom in sell-off move: France Télécom is to be transformed from an arm of the French government administration into a company with an initial share capital of FF25bn (\$4.78bn) as a step towards its partial privatisation. Page 11

Raffians offered car incentives: Italy's centre-left government introduced incentives for the purchase of new cars, as part of a package designed to raise L4,305bn (\$3.82bn) as part of the 1997 budget. Page 10

Libco in \$2.5bn merger: Long Island Lighting Company, the quoted US utility that charges the US's highest electricity rates, is set to merge with the neighbouring Brooklyn Union Gas Company in a \$2.5bn deal. Page 11

Aegon makes \$3.5bn US purchase: Shares in Dutch insurance group Aegon rose 11 per cent as it announced the \$3.5bn acquisition of the insurance operations of Provident of the US. The deal lifts Aegon from 17th to 12th among listed life insurers. Page 11; Lex, Page 10

Cheaper US domestic air fares likely: Cheaper air fares for business travellers in the US are in prospect next year when Congress considers replacing a 10 per cent tax on the price of domestic air tickets with fixed user fees. Page 2

'Little prospect' of IRA ceasefire: Sinn Féin chief negotiator Martin McGuinness warned that there was "little prospect" of an IRA ceasefire in Northern Ireland in the short term. Page 4

Morgan Crucible plans Asia expansion: UK engineering and speciality materials group Morgan Crucible plans to accelerate its international expansion with a series of joint ventures and acquisitions in Asia and the Pacific Rim. Page 11

Series is drawn: The second and final cricket test between Zimbabwe and England in Harare was abandoned as a draw after heavy overnight rain meant no play was possible on the last day. The first match of the series had also been drawn.

The Financial Times will not be published on New Year's Day. The next issue will be on Thursday, January 2. We wish all our readers, advertisers and distributors a happy new year.

FT owns the FT web site provides online news, comment and analysis at <http://www.ft.com>

STOCK MARKET INDICES	
New York Composite	5,880.13 (+18.22)
Dow Jones Ind. Ave.	4,202.00 (+0.62)
NASDAQ Composite	1,202.00 (+0.62)
Europe and Far East	
DAX	2,318.63 (+11.69)
CAC40	2,988.00 (+35.01)
FTSE 100	2,116.7 (+24.7)
Nikkei	7,937.35 (+7.80)

US BOND YIELD RATES	
Federal Funds	5.75%
3-mth Treas. Bill	5.131%
Long Bond	5.94%
Yield	5.529%

OTHER RATES	
UK 3-mth Interbank	6.5%
UK 10 yr Govt	9.9%
France 10 yr Govt	10.5%
Germany 10 yr Govt	10.2%
Japan 10 yr Govt	4%

NORTH SEA OIL (Barrel)	
Spot	\$23.80 (\$23.60)
1m	\$23.80 (\$23.60)

Atlantic	LSK 275 Gibraltar	20.75	Lithuania	LS 18.00	Qatar	CR13.00
Austria	LSK 275 Greece	20.00	Lux	LSK 275	Singapore	SR13.00
Bahrain	DM 200 Hong Kong	140.00	Mex	LSK 275	Sri Lanka	SR13.00
Belgium	BF 75 Hungary	12.70	Morocco	LSK 275	Sri Lanka	SR13.00
Cyprus	DM 200 Iceland	140.00	Nepal	LSK 275	Sri Lanka	SR13.00
Czech Rep	KS 70 India	140.00	Nigeria	LSK 275	Sri Lanka	SR13.00
Denmark	DK 200 Israel	140.00	Norway	LSK 275	Sri Lanka	SR13.00
Egypt	EGP 200 Italy	140.00	Oman	LSK 275	Sri Lanka	SR13.00
Estonia	EEK 200 Japan	140.00	Pakistan	LSK 275	Sri Lanka	SR13.00
Finland	FM 200 Jordan	140.00	Poland	LSK 275	Sri Lanka	SR13.00
France	FF 200 Kuwait	140.00	Portugal	LSK 275	Sri Lanka	SR13.00
Germany	DM 200 Lebanon	140.00	Romania	LSK 275	Sri Lanka	SR13.00

Prices move up in thin end-of-year trading as 10 exchanges follow Wall Street lead

Europe's markets hit new highs

FTSE sets record mark as DAX and CAC lag behind

By Connor Middlemann in London and Lisa Branstetter in New York

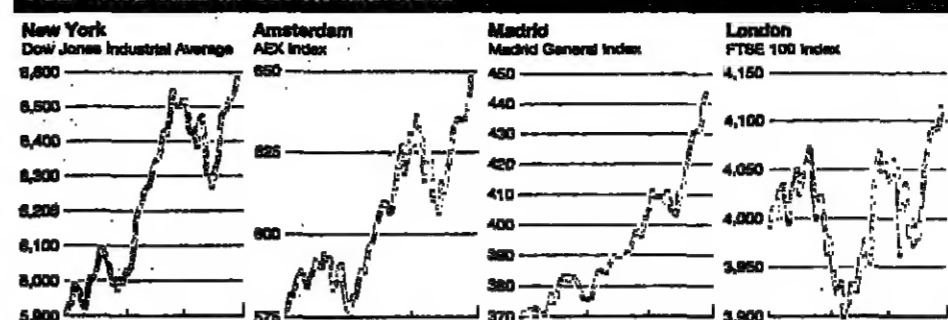
European equity prices sought new heights yesterday, boosted in part by further gains on Wall Street. By the end of trading, 10 markets had reached all-time highs.

Amsterdam put on the strongest performance among European exchanges, following the announcement that the Dutch insurance company Aegon had agreed to buy the life operations of Provident Corporation, a US insurer. The AEX index rose 9.15 points, or 1.45 per cent, and closed at 648.54. The UK stock market also had a busy day with the FTSE 100 index hitting a closing record on surprisingly buoyant volume. Gains were spurred mainly by the continuing

strength of the US stock market, as well as a series of bullish forecasts for the FTSE 100 for the coming year. At the close of trading, the index was up 24.7 points at a new closing and intraday peak of 4,115.7. Trading volumes on most European exchanges were thin, however, as is typical of the period between Christmas and New Year. Equity analysts said the gains did not reflect important investment flows.

The Spanish market, which has gained 9.5 per cent in December and is up 41.8 per cent on the year, also hit a high as the Madrid General Index rose 0.7 per cent to 4,115.7. The market has been bolstered by optimism that Spain may be among the first countries joining Europe's single currency in 1999. This convergence theme has driven

Year-end fizz in stock markets



Spanish bond yields sharply lower over recent months. "Convergence brings down interest rates and improves the relative valuation of equities," said Mr James Cornish, European strategist at NatWest Markets. Utility stocks, which offer high yields, and bank shares stood to benefit particularly from falling bond yields in Spain, he said. Scandinavian markets also

reached new highs: the Danish KFX index rose 2.1 point to 136.13, up 1.6 per cent on the day. That was followed by Sweden, where the Affarsvarlden General Index climbed 24.7 point to 2,402.9, up 1 per cent. In Norway, the Oslo Total index rose 0.8 per cent to 968.37 while Finland's Hex index rose by 0.6 per cent to 2,495.53. Other records were attained

in Switzerland, where the SMI rose by 0.7 per cent to 3,948.3, and on the Lisbon and Budapest stock exchanges. Markets in Germany and France lagged slightly behind, having attained their peaks in early December. Germany's DAX index closed 30.85 points higher in after-hours trading at 2,890.07, while France's CAC 40 rose 11.88 points to 2,318.63. Blue chip shares in the US

continued the "Santa Claus" rally begun in mid-December with the Dow Jones Industrial Average moving up 16.19 at 6,577.82 at mid-session. Ms Gail Dudack, chief investment strategist at UBS Securities in New York, said the modest uptick was normal for the end of the year as people invested year-end bonuses and holiday cash. She added that the traditional year-end rally obscured the general tone of the market and that it would be difficult to determine the market's true tone until the middle of January when new data on the economy and flows to mutual funds come out. "It's been an unconvincing rally so far," she said, adding that the Dow was outperforming broader indices perhaps because of the concentration of companies in it that have launched share buybacks. Lex, Page 10 World markets, Page 26

Bargain stake for Yung at Citic Pacific

By John Ridding in Hong Kong

Citic Pacific, Hong Kong arm of Beijing's flagship investment vehicle, has announced that a management group led by Mr Larry Yung, its chairman and the son of China's vice-president, is paying HK\$10.88bn (\$1.4bn) for a 15.5 per cent stake in the company. "This looks like a very generous gift," said a conglomerate analyst at a European investment bank, referring to the HK\$33 per share being paid by management compared with the HK\$43.80 at which the shares closed last Friday. The deal strengthens Mr Yung's position as one of the most powerful businessmen in the territory, giving him a stake of 18.5 per cent in Citic Pacific, a growing conglomerate with interests from infrastructure to aviation and with alliances with some of Hong Kong's leading businesses. Citic Pacific described the move as a performance incentive and said it reflected the personal commitment of senior managers to the future of the

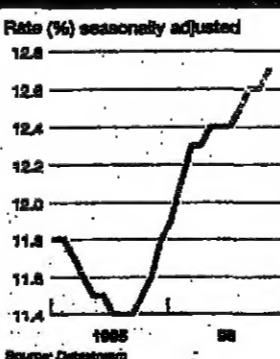
company. It added that the group's Beijing-based parent company, which is selling the shares to Citic Pacific's management, will use the proceeds for mainland projects. But the conglomerate analyst added: "It raises the questions of why they need so much extra motivation, and whether this will cause resentment against Mr Yung." Information provided to the Hong Kong stock exchange showed that Mr Yung accounted for the large majority of the share purchases announced yesterday. Other participants came from a core group of senior managers including Mr Henry Fan, managing director, Mr Vernon Moore, deputy managing director, and Mr Robert Adams, executive director. Shares rose sharply on the news, gaining HK\$3 to close at HK\$45.60. The jump took the increase in the shares to more than 70 per cent this year. Continued on Page 10 Lex, Page 10; Yung tightens grip, Page 15

France's jobless rate at new high

By David Owen in Paris

French unemployment hit a post-war record of 12.7 per cent in November, reversing October's downturn and increasing pressure on the embattled government of Mr Alain Juppé, the prime minister. Figures released yesterday by the labour ministry put the total at 3.12m, a rise of nearly 21,000 or 0.7 per cent, after the unexpected 0.4 per cent fall in October. The rate is more than a full percentage point higher than a year ago. Unions reacted furiously to the figures, with the Communist-led CGT threatening to "rise up" against policies conducted in the name of "liberal economics and triumphant capitalism". "Inexorably, month after month, tens of thousands of people join the ranks of the millions of unemployed faced with exclusion and social misery," it said. "Though reaction was otherwise muted in the run-up to

French unemployment



the new year holiday, the figures seemed certain to put the increasingly unpopular government under more pressure to cut interest rates in an effort to stimulate the jobs market, even if it means allowing the franc to depreciate. The government has an opportunity later this week to signal whether any significant

Continued on Page 10



Serb army chief fails to endorse Milosevic

By Paul Wood in Belgrade

Mr Slobodan Milosevic, the Serbian president, yesterday faced increasing signs of discontent within the Yugoslav army as the opposition prepared for a big anti-government demonstration tomorrow in Belgrade, the capital. General Momcilo Perisic, the army chief of staff, slapped down a call from a group of army officers to back the protests. But he pointedly refused to issue a declaration of support for Mr Milosevic, merely saying the army would ensure stability. "There are attempts at speculation, manipulation and unfounded allegations about the role of the army," a statement from the general staff said. "The aim is to draw its members and units into activities that are outside its established social status and constitutional role."

The statement added: "The general staff of the army of Yugoslavia and the army in its entirety are united in their consistent execution of the set tasks." The statement appeared to

Continued on Page 10

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NEWS: INTERNATIONAL

Bonn chiefs rush to defend euro

By Peter Norman in Bonn

Germany's political class closed ranks around the euro yesterday following a warning from Mr Gerhard Schröder, the Social Democrat prime minister of Lower Saxony, about the dangers of European economic and monetary union.

Chancellor Helmut Kohl and his chief political rival, Mr Oskar Lafontaine, the SPD leader, used the same language to praise the euro as an "important building block" in creating the "European house". Mr Klaus Kinkel, at the centre of a controversy yesterday over his remarks about the importance for Europe of the forthcoming UK general election, was characteristically forthright.

He likened critics of the single currency to the machine breakers who led a futile campaign against the industrial revolution in the early 19th century.

In an article for today's Handelsblatt business newspaper, Mr Kohl said the euro would give a new impetus to European union and act as a "vitamin boost" for Europe's economy.

"Only with the euro will the European single market of more than 370m people be able to develop in full its positive effects for growth and jobs," he declared. "A strong euro" would be able to strengthen the position of Germany and Europe against dollar and yen area competitors.

Mr Lafontaine warned that a delay to the start of the euro, as suggested by Mr Schröder, would throw the entire EU into crisis. Also writing

in Handelsblatt, he qualified his enthusiasm by saying that the euro needed supporting through a European-wide "alliance for growth and new jobs".

He called for a concerted policy among Euro members to promote prosperity, steady growth, a high level of employment, foreign trade in balance and a stable currency. This would entail the creation of "a European economic government", lower taxes and social security contributions, stronger research and development, wage settlements that encouraged employment, harmonised corporate taxation, lower real interest rates and international accords on minimum social and environmental standards.

In a thinly disguised swipe at Mr Schröder, Mr Kinkel challenged "euro-moaners" finally to cease drawing scenes of doom and spreading fear of crisis. Opponents of the euro - variously condemned by Mr Kinkel as "irresponsible", "self-profligate" and "populists" - should say what they proposed instead. The single currency, he said, would attract investment and create jobs. To have 15 national currencies was not the right way for Europe to face regions of dynamic growth in Asia and the Pacific rim.

The chancellor, in a New Year message to be broadcast tonight, warns that Germans "cannot simply go on as before" and urges greater individual responsibility and initiative in 1997 to overcome the nation's social and economic ills.

Monetary union brings bank holiday union in its train

Tradition looks likely to take a back seat to market priorities



Preparing for Euro

When European finance ministers sit down to discuss progress towards the single currency, they will be generally aware of the large impact of their conversations. But alongside the convergence of macroeconomic policies and the interlinking of national payment systems, the harmonisation of bank holidays such as St Ignace's Day, observed in Spain, may become one more grain of sand in the gearbox of monetary union.

There is, of course, no absolute requirement for every country to observe exactly the same bank holidays. After all, regional holidays such as St George's Day in Catalonia exist in many European Union countries. But, even without monetary union, many countries are slowly harmonising national holidays.

Scottish banks have decided this year to open on January 2, traditionally a holiday in Scotland, and close instead on Easter Monday, in line with their English counterparts. That, however, has prompted a one-day strike by members of the Banking, Insurance and Finance Union.

Austria, too, is steadily abandoning the Feast of the Immaculate Conception in December, spurred by the flight of shoppers to neighbouring countries at the height of the Christmas season.

According to the Banking Federation of the European Union, only three days are shared as bank holidays by

Emu: who's going to make it

J.P. Morgan Calculator 30/12/96

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	100%
Spain	83%	78%	63%
Sweden	75%	77%	65%
Italy	57%	65%	57%
Denmark	48%	48%	47%
UK	40%	40%	40%

The Euro calculator provides a weekly snapshot of the probabilities which the financial markets place on selected countries being willing and able to join Germany in forming a single European currency in 1998. Currency strategists at investment bank J.P. Morgan calculate the probabilities from the interest rate swap market, in which investors swap floating rate interest payments on an investment for fixed-rate ones. Countries are selected if they have a fixed swap market which allows comparable probabilities to be calculated. Finland, Ireland and Portugal will be added to the Euro calculator in the coming weeks. The Netherlands is seen as being 100% certain of joining Euro. Over the past week there has been little change in the market probabilities of Euro entry, though the gap between Spain and Italy has widened.

all member states: New Year's Day, Easter Monday and Christmas Day - although in the UK, Christmas Day is technically not a statutory holiday but a common law feast deriving from the Queen's non-statutory powers as head of the Church of England.

On December 26, all markets except France and Spain are closed, while on Good Friday and May 1 only three markets remain open. On another 51 days, at least one EU market is closed.

But bank holidays are not just a matter of deciding when to stay open. They carry exact legal ramifications on when payments are due. In the UK, for example, bank holidays were created

by act of parliament in 1871, subsequently revised in the Banking and Financial Dealings Act of 1971. Under the law, all bills of exchange falling due on a holiday are payable on the next business day.

Emu working parties are concerned with two bank holiday issues: arrangements for payments due on a holiday, and the need to harmonise trading days in EU financial markets.

On the first issue, the European Monetary Institute noted in a progress report on payment systems this summer that central banks currently use two different arrangements for handling regional bank holidays. Either the system can

be kept open for "passive participation" by local banks, which can receive payments on regional holidays but need not process outgoing payments; or payments can be re-routed to another branch which is not on holiday.

More simply, suggests the Banking Federation, "it could be stated that settlement is postponed to the following day if the standard settlement day is a bank holiday".

The harmonisation of trading days may be more difficult to resolve. The liquidity of the sterling or peseta markets, after all, is not severely affected if Scotland or Catalonia remain closed. The liquidity of the euro market, on the other hand, could be sharply altered by a holiday in Germany, and that could affect interest rates.

A bank in, say, Spain might find it more difficult to obtain funding in the markets on the May 3 Ascension Day holiday, when both Germany and France would be closed for business. Conversely, the Spanish bank might be nervous about leaving its trading desk unmanned on the national holiday on October 12, knowing that interest rates could move sharply that day in trading in Paris and Frankfurt.

But tinkering with traditional holidays runs the risk not just of industrial action but of much wider unrest. If European citizens believe they are being deprived of their holiday rights, the banking strike threatened for Scotland on Thursday may pale into insignificance.

George Graham

INTERNATIONAL NEWS DIGEST

Blast destroys Assam train

Between 100 and 300 people may have been killed last night in a bomb explosion on a crowded train in India's north-eastern state of Assam.

Police said three to four carriages and the locomotive of the Delhi-bound Brahmaputra Mail were destroyed as the train left the small town of Kokrajhar at about 7.15pm. Officials said each carriage was believed to be carrying at least 60 people. Early rescue work was hampered by the remoteness of the location.

No organisation has yet claimed responsibility for the attack but initial suspicion has fallen on activists within the Bodo tribe seeking a separate homeland in the isolated state. An extreme wing of the tribe, the Bodoland Army, has been fighting to establish a separate nation since 1988.

The blast came a day after Bodo rebels blew up a bridge forming the main link between India's north-east regions and the rest of the country. Tony Tassell, Bombay

Austrian bank bid rift grows

Austria's conservative People's party yesterday sparked a coalition crisis in its effort to stop a bid by Bank Austria, the country's biggest bank, for Creditanstalt, the second largest. Mr Andreas Khol, parliamentary faction leader for the junior partner in the government, said his party would introduce a bill on January 14 to force Mr Viktor Klima, Social Democrat finance minister, to make a public stock offering for the government's 70 per cent stake in Creditanstalt rather than carry out his tender plan.

Earlier this month Bank Austria topped a bid for Creditanstalt from an Italian-led consortium when it offered Sch836 a share, valuing the company at Sch18.7bn (£1.5bn). The People's party had supported the consortium, and rejected Bank Austria's bid as a step towards the re-nationalisation of Creditanstalt; Bank Austria is controlled by the City of Vienna, which is run by Social Democrats. Eric Frey, Vienna

Europe's big freeze kills 90

A Europe-wide cold snap has killed at least 90 people in the past week and has brought road chaos and air traffic delays.

In Romania, about 20 people froze to death in blizzards, according to official sources, while unofficial reports said 24 people - mainly elderly, homeless and beggars - had died in Bucharest alone. Bulgaria was also badly hit, with nine people found frozen in snow storms on Sunday, bringing the toll there to 19 since Christmas Eve.

Poland reported its coldest weather for 10 years, with 17 deaths recorded in the past week. Scandinavia and Russia have seen colder weather and heavier snowfalls than in recent years. Tass news agency reported 10 people dead in Russia with 245 in hospital with frostbite. Up to 300 people have been trapped for days in a tunnel with their vehicles by avalanches in the southern Caucasus mountains.

In Italy's Alpine north, temperatures were down to -30° C. On the north-east coast, the lagoon on which the city of Venice is built froze over.

Forty flights had to be cancelled yesterday morning from Frankfurt airport in Germany, one of Europe's busiest airports, because of snow on the runways. It also brought shipping to a halt on the Elbe river in eastern Germany, on the Main-Danube canal and on the Danube river itself up to Germany's border with Austria. Reuters, London

Beijing expects 10.5% growth

China's economy is expected to grow 10.5 per cent in 1997 compared with 9.7 per cent this year, reflecting an easing of credit restrictions and the government's decision to stimulate economic activity selectively. In its annual review, the State Statistical Bureau forecast inflation would remain near this year's level of 6 per cent.

However, a build-up of inventories and so-called "triangular debt" between enterprises unable to pay each other for goods and services reveals the depth of state sector problems. At the end of October, inventories amounted to Yn50bn (US\$20bn), Yn50bn more than in 1995. About 75 per cent of state enterprises have lost money this year, partly due to a lingering credit squeeze. Losses are up 45 per cent to Yn69bn.

China's exports are expected to exceed imports by \$18bn this year after a strong recovery in the second half. Two-way trade reached \$290bn, up 3.3 per cent on last year. Tony Walker, Beijing

Electric taxi venture in China

Peugeot Citroën of France is to help China develop mass-produced electric vehicles, including a taxi and minibus. Under the agreement with the Dong Feng Motor Company in Hubei province, the French group will co-operate in the research, design, production and distribution of electric vehicles, according to a report in the official China Daily.

Development efforts will focus on 30-35 seat minibuses, 3.5 ton vans, smaller delivery vans, five-to-six seat taxis and small vehicles capable of recharging themselves at special powered parking spots. Tony Walker

S Korea unions ease strike

South Korean unions partially eased nationwide strikes yesterday for a New Year break, but warned of worse to come unless the government repealed an unpopular labour law before Friday.

"Subways and some other public sectors are returning to work for the sake of public convenience over the New Year holiday," a union statement said, as Prime Minister Lee Soo-Sung pledged a special law to improve workers' welfare.

The militant Korean Confederation of Trade Unions (KCTU) statement said subway workers in Seoul and Pusan, the southern home city of President Kim Young-sam, had already returned to work. Hospital unionists would resume work tomorrow, the KCTU said.

"But we will intensify our second-stage struggle unless the Kim Young-sam government nullifies the law by January 3," the statement said, demanding the president apologise and sack his cabinet.

The new labour law, rammed through parliament last week, gave management more latitude to sack workers and bans multiple unions for three years. AFP, Seoul

Indonesian trial to continue

An Indonesian court yesterday ruled that a prominent labour union leader should continue to stand trial on subversion charges, dismissing defence lawyers' arguments that the authorities were punishing him for his political views.

Mr Muchtar Pakpahan, chairman of the Indonesian Welfare Labor Union, which is not recognised by the government, was arrested earlier this year for allegedly inciting July's anti-government riots in support of the ousted opposition leader Ms Megawati Sukarnoputri. Prosecutors, however, did not refer to the riots in court.

Apparently finding no direct link between Mr Pakpahan and the riots, prosecution lawyers have now accused him of inciting unrest by publishing a book on the huge income gap between Indonesia's rich and poor and for advocating that President Suharto be charged with abuse of power. Mr Pakpahan faces the death penalty.

His trial comes amid a wider crackdown on political opposition ahead of parliamentary elections scheduled for May. Marnela Saragosa, Jakarta

Big US airlines seek lighter safety burden

By Nancy Dunne in Washington

Cheaper air fares for business travellers in the US and a change in the way the cost of aviation safety is shared among airlines are in prospect next year.

A 10 per cent tax on the price of domestic air tickets, which indirectly helps fund the Federal Aviation Administration (FAA), expires at midnight tonight. At the urging of the seven largest airlines, Congress delayed renewing it and will consider replacing it with fixed user fees.

A recent report from the General Accounting Office, the investigative agency of Congress, concluded that replacing the ticket tax would

save the largest airlines nearly \$600m a year. At the same time, the cost to low-fare and small airlines would increase by nearly \$500m.

The users' fees would lower ticket prices for business travellers and other holders of high-priced tickets and shift costs to cheap ticket holders - mostly tourists and holidaymakers - by replacing a percentage charge with a fixed one.

Since 1970, the ticket tax has been paid into a trust fund, which supports about three-quarters of FAA operations. These include air traffic control, certifications of new aircraft and inspection of old ones. About 87 per cent of fund revenues

come from the ticket tax; it is also financed by a \$6 per passenger charge on international flights departing from the US.

The tax inadvertently lapsed for eight months last year during the budget conflict between Congress and the president. During that time, seven airlines - American, Continental, Delta, Northwest, Trans World, United and USAir - produced their proposal.

The seven argue that the ticket tax, "a relic of the regulation era", favours low-fare competitors unfairly. Under competitive pressures, prices vary widely, even for seats on the same flight, they say. But passengers should not have to pay widely varying taxes for identical FAA safety and air traffic control services.

The coalition has proposed a three-part formula for user fees: a \$4.50 charge per passenger; \$2 per seat on jet aircraft with 71 or more seats and \$1 per seat on jets and turboprop aircraft with 70 or fewer seats; and \$0.005 per non-stop passenger mile.

The GAO noted that most of the main commuter carriers are owned by, or affiliated with, one of the seven. They would thus benefit from the \$1 per seat charge for smaller aircraft. "While the ticket tax might provide low-fare airlines with a competitive advantage, other public policies favour some large carriers," it said. "For exam-

ple, a few large airlines control nearly all the takeoff and landing slots at the four 'slot-controlled' airports [in Chicago, Washington and New York]."

Mr Ron Hicks, a spokesman for Southwest Airlines, said although the cost of the new fees could be passed on to consumers, no-frills carriers such as his own company would be reluctant to do so for fear of driving away passengers.

According to the GAO, Southwest accounted for 6.3 per cent of airlines' payments under the ticket tax and 7 per cent of the aircraft miles flown in 1995. However, its contribution to the trust fund would rise to 10.3 per cent under the users' fees proposal.

'Dinner for One' hits Germans in the ribs

A British comedy sketch, televised each year since 1971, has assumed cult status, says Peter Norman

Ingrid Matthäus-Maier, the German Social Democratic party's front bench spokesperson on public finance, is a hard working legislator whose area of expertise is rarely noted as a breeding ground for wit.

But she had opposition and government members of the Bundestag chuckling away merrily during the first reading of the 1997 federal budget when she switched into English to accuse Mr Theo Waigel, Bonn finance minister, of adopting the "same procedure as every year" by running up a huge budget deficit.

Her joke at Mr Waigel's expense alluded to a modest English export that has become a cult in Germany.

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"The same procedure as every year" (with lascivious stress on the "every") is the punch line of "Dinner for One", a scratchy 15-minute black and white comedy sketch that will flicker across the nation's television screens tonight just as it has done on every New Year's Eve since 1971.

Made in Hamburg by the NDR broadcasting station in 1963, it stars Freddy Frinton, a British music hall comic who died in 1968, and May Warden, his partner of many years. The plot, if it can be described as such, is touchingly simple.

May Warden plays Miss Sophie, who is celebrating her 90th birthday, just as she has celebrated every birthday in the company of four friends. James, her butler, played by Frinton, serves the food and drink. The catch is that the four friends, Sir Toby, Admiral von Schneider, Mr Pommeroy and Mr Winterbottom are long since dead, so James has to keep circling the table, becoming increasingly inebriated as he acts the part of each guest

and drinks a toast to Miss Sophie with each course of the meal.

James takes in copious amounts of sherry, white wine and port, stumbles frequently over the head of a strategically placed tiger rug and repeatedly asks whether Miss Sophie wants "the same procedure as last year".

The reply, always the same, is "the same procedure as every year".

Despite being screened in English, without subtitles, 7.6m Germans watched the sketch last year through to its denouement when Miss Sophie whisks James off to her bedroom in the "same procedure as every year".

Dinner for One will be screened on six regional stations of the third television channel and will be transmitted twice on some.

Despite some overlapping, an enthusiasm with access to cable or satellite TV can watch it six times between 7pm and 1am. And such enthusiasts exist, according to Mr Andreas Meinheit, a sociologist with Trendbüro, a strategic planning

consultancy in Hamburg.

He tells of "Dinner for One parties", where people gather to watch the film many times over, eating the mulligatawny soup, North Sea shellfish and roast chicken dishes featured in the sketch. "Its simplicity," Mr Meinheit explains, "answers a sense of longing for a simpler and more calculable world."

For Mr Norbert Bolz, professor of communications theory at Essen university, it is part of the ritual of New Year's Eve: a kind of comfort food that gives people a sense of security. Prof Bolz also says there is "something positive" in the continued popularity of Dinner for One. "It is a sign Germany is becoming a bit more humorous and a bit more ironic in judging itself."

In which case it is a pity that Dinner for One will not be seen in the UK. For while the sketch is in the German Guinness Book of Records as the country's most repeated TV programme, it remains unknown in Britain.



The butler in 'Dinner for One', inebriated after continually toasting his mistress while taking the place of four make-believe guests, negotiates the head on a tiger skin rug

Yeltsin lines up with Chechnya doves

By Chrystia Freeland in Moscow

Ending the war in Chechnya was one of the year's greatest accomplishments, President Boris Yeltsin said yesterday in a New Year's eve address.

The peace agreement was reached in August, during Mr Yeltsin's prolonged seclusion from active politics following his third heart attack in June.

The accord has been attacked by some of Russia's

most powerful politicians, including Mr Yuri Luzhkov, the mayor of Moscow.

Mr Yeltsin's unambiguous commitment to the peace deal, less than a month before controversial elections in Chechnya for a local president, placed him firmly among the doves and could weaken the hardline camp.

His support comes at a crucial moment. Russia's remaining troops in the region, primarily from the interior ministry, are scheduled to withdraw by the

weekend. That is likely to be a painful moment for Russian society, and for the military. It will effectively leave the breakaway republic in the hands of the separatist fighters the Kremlin set out to crush two years ago.

Subduing inflation and successfully carrying out democratic presidential elections were other achievements cited by the Kremlin leader, who returned to his office in Red Square only last week.

The greeting for the New

Year, which is Russia's biggest winter holiday, signalled a continued effort by Mr Yeltsin, who underwent a quintuple heart bypass operation less than two months ago, to reassure the country that he is again firmly in charge.

Mr Yeltsin said his illness and operation had marked 1996 as a year of personal difficulties.

Now, however, he was "ready to take up the most complicated problems facing Russia", and he vowed

to "make up for lost time".

His promise followed another dribble of bad news for the Kremlin from the provinces, where leftwing opposition candidates have been performing more strongly in gubernatorial polls than the Yeltsin administration had predicted when the regional electoral marathon began in September.

In a weekend run-off, Mr Nikolai Makluta, a Communist-backed candidate, beat the pro-Yeltsin incumbent in Volgograd in central Russia.

Hopes high for signing of Hebron deal today

By Avi Machlis in Jerusalem

Israel and the Palestinian Authority yesterday said they were on the brink of an agreement on Israeli redeployment from most of the occupied West Bank town of Hebron.

Mr Yitzhak Mordechai, Israeli defence minister, said he expected an accord soon if Israeli and Palestinian negotiating teams could resolve the few remaining issues. This would pave the way for a summit meeting between Mr Benjamin Netanyahu, Israeli prime minister, and Mr Yasser Arafat, president of the Palestinian Authority, "to finalise an accord".

Mr Mahmoud Abbas (Abu Mazen), a senior official of the Palestine Liberation Organisation, said he hoped a deal could be signed today. Mr Mordechai and Mr Abbas met yesterday in an attempt to resolve outstanding issues. The defence minister met Mr Arafat on Sunday night in a meeting he described as "excellent".

Mr Dennis Ross, US Middle East peace envoy, yesterday returned to the region to help broker a deal after his mediating efforts last week assisted in breaking weeks of deadlock in the talks. A US official said the prospects of reaching a deal soon "look very promising".

Palestinian negotiators said Israel would redeploy from Hebron a week after an accord was signed.

Nearly three months of talks were deadlocked as Israel tried to improve security for 400 Jewish settlers who live in Hebron

among about 120,000 Palestinians.

Palestinian negotiators have said Israel complied with their central demand by committing itself to continuing with the peace process and carrying out a further redeployment from the West Bank and Gaza after Hebron.

Political analysts said Israel's agreement to withdraw from most of Hebron, and its emerging commitment to a further West Bank pull-out, marked an ideological shift in the hardline Likud party led by Mr Netanyahu.

"It is a kiss of death for the idea of a greater Israel," said Mr Menachem Hofnung, political science lecturer at the Hebrew University of Jerusalem. "The idea which they professed for over three decades is no longer viable," he said. The Likud party's central doctrine considers the Israeli-occupied West Bank an integral part of Israel.

But Mr Netanyahu yesterday reiterated his hardline policies at a coalition meeting in the Knesset (parliament). He pledged to continue supporting Jewish settlements in the West Bank, and to "prevent establishment of a Palestinian state". These issues are set to be discussed in final status talks due to resume after the Hebron redeployment.

Meanwhile, Mr Netanyahu's coalition easily rejected a Knesset motion of no-confidence, raised by Moledet, an extreme rightwing party which opposes redeployment from Hebron.



Two men accused of helping organise genocide in Rwanda appeared in court yesterday in Kigali. They are Mr Silas Munyagashali, left, Kigali's former deputy prosecutor, and Mr Theodor Ruzibwaba, a former local administrator. Their cases were adjourned.

Billions in US tax refunds in prospect

By George Graham, Banking Correspondent

Foreign banks and insurance companies could receive billions of dollars in overpaid US taxes, after a court defeat for the Internal Revenue Service this month threw into question the way it has been assessing tax on branch operations.

The US Tax Court in Washington ruled that the IRS had violated the US-Canada tax treaty in calculating taxable net investment income for North West Life Assurance of Canada.

Other Canadian life insurers operating in the US through branches, rather than through separately incorporated subsidiaries, are directly affected by the ruling and could claim as much as \$400m in tax refunds.

But the judgment could influence a similar case involving National Westminster Bank of the UK, which is in dispute with the IRS over \$180m of back tax and interest that it was forced to pay in 1995, and has filed suit against the US in the

Court of Federal Claims.

That could broaden the impact of the judgment to hundreds of foreign banks operating in the US through branches, and would be likely to be pursued to the Supreme Court because of its massive financial implications for the US government.

Foreign businesses in general, and foreign banks in particular, are always a popular target for both Congress and the administration, which traditionally claim that they pay less than their fair share of US taxes. President Bill Clinton promised in his 1992 election campaign to raise \$45bn in extra taxes from foreign businesses, a promise that had to be abandoned even before he took office.

In the North West Life case, the IRS calculated tax using the Internal Revenue Code, which specifies that a branch should report as its net investment income each year the greater of its actual investment income or an amount calculated by a formula intended to represent the average of comparable US life companies.

The Tax Court agreed with North West Life, represented by Mr Jerome Libin of Sutherland, Ashill & Brennan, the US law firm, that the US-Canadian tax treaty required the tax liability of the branch to be based on the actual facts of its operations, and that this overrode the Code.

NatWest's case, covering taxes paid in 1981-87, bears some similarities to North West's not only because it relates to branch operations, but also because it revolves around the IRS's use of an arbitrary formula rather than the actual facts. For banks, the formula relates to the calculation of deductible interest costs.

NatWest yesterday refused to comment on the case, but its lawyers acknowledged that they regarded the North West judgment as "relevant".

Like the Canadian treaty, the UK tax treaty with the US provides that tax levied on a US branch should be calculated on the basis of the profits it would have made if it had been a "distinct and separate enterprise".

House of Representatives Speaker may be forced from office after misleading ethics panel

Gingrich's fate hangs on handful of votes

By Jurek Martin in Washington

The chances of Mr Newt Gingrich being re-elected Speaker of the House of Representatives next week now rest on the votes of a handful of Republicans and, to a lesser extent, on tactics employed by the minority Democrats.

While senior Republicans continued to rally behind Mr Gingrich, who has admitted misleading the House ethics committee over the financing of a college course he taught, some backbenchers and conservative commentators have urged him to step aside for the time being or

resign. Republican hopes that the ethics panel could decide on disciplinary action before the full House votes on January 7 were dampened when Congressman Jim McDermott, the ranking Democrat on the committee, said in a newspaper interview published yesterday that it would be "almost impossible" for any recommendation to be ready by that date.

The 10-member committee is equally divided between Republicans and Democrats. If it decided to censure the Speaker for ethical misconduct, he would be obliged to resign, as Congressman Jim Wright, a Democrat, did in

1989. A lesser punishment or a hung committee might enable him to survive. A majority of the 435-member House is required to elect a Speaker.

If 20 of the 227 Republicans fail to support Mr Gingrich, and the 208 Democrats remain solid in opposition, he would be forced out of office.

About half a dozen Republicans have so far expressed varying degrees of reservations in public, most of them preferring to wait on the committee's judgment.

Only one, Congressman Michael Forbes of New York, previously a staunch supporter, has announced he

would definitely vote against a second term.

Among influential right-wing pundits, Mr William Safire of the New York Times, and Mr Robert Bork, the unsuccessful Supreme Court nominee, have urged Mr Gingrich to step aside.

Mr Bork suggested a damaged Speaker might not "advance conservative causes aggressively," a concern also frequently heard on conservative talk radio.

The counter-attack from other members of the Republican leadership has stressed that Mr Gingrich's offences are relatively mild, stemming from what are described as a

misunderstanding of "arcane" tax laws and poor legal advice (Mr Gingrich fired his original lawyer just before Christmas).

Congressman John Linder, like the Speaker from Georgia, accused the Democrats of nakedly playing politics. "They want to keep Newt in the public eye as long as Clinton is being accused of laundering money," he told a television interview in reference to the controversy over Democratic party fundraising.

From a longer term standpoint, it may suit the Democrats to have Mr Gingrich in office but further weakened, though in

practice the focus of Republican power in Congress has already clearly shifted away from the Speaker and towards Mr Trent Lott, the Senate majority leader.

Several prominent Republicans have been mentioned as replacements, either temporary or permanent, for the Speaker. They include Congressman Henry Hyde from Illinois, chairman of the judiciary committee, and most of Mr Gingrich's ideological senior deputies.

Congressman Dick Armey and Tom DeLay, both from Texas, and Mr John Kasich of Ohio.

US telephone groups circle over Mexican monopoly

A price and advertising war has broken out as foreign competitors muscle into a newly liberalised telecoms market

Mexicans knew telecoms competition was arriving when "Mr Burton Helms" proclaimed on television he was looking forward to connecting the country's "32 largest villages".

"Do you know why mine is a long-distance phone company?" the "US businessman" bellows in atrocious Spanish in his TV spots. "Because I intend to run it from Chicago!"

"Mr Burton Helms" is a figure created by Telefonos de Mexico (Telmex) as a way of hitting at foreign telecom groups that are about to compete in the local market.

From tomorrow, US carriers such as AT&T and MCI will be allowed to offer long-distance services in Mexico, ending Telmex's 48-year monopoly.

Over the past year, half a dozen US companies and their Mexican partners have spent hundreds of millions of dollars building rival networks to capture part of Telmex's \$7bn business.

Now they are on the last lap of the deregulation race and are jostling for position with a fierce advertising war.

Telmex invented "Mr Burton Helms" - named after the controversial Helms-Burton anti-Cuba trade legislation in the US - in response to the barrage of negative advertising unleashed by its rivals.

His television spiel, marked by unabashed jingoism, ends by reminding viewers that Telmex is a Mexican company at the service of the nation.

The competition, however, has gone for Telmex's Achilles' heel - the perceived poor quality of its service.

Avantel, a joint venture between MCI and Banamex, Mexico's largest bank, has focused its attack on customer dissatisfaction. Its advertisements feature long queues of anxious customers getting no attention from the indolent monopoly.

"Telmex is accustomed to dealing with captives, not with customers," says Mr Jorge Rodriguez, the chief



Ahora es bien fácil y barato hablar a Estados Unidos por cobrar

Avantel

Bucking the market: Avantel's advertisement featuring the Broncos country and western group. It reads: "Now it's so easy and cheap to call collect to the US"

marketing officer at Avantel. "Mexicans have been ripped off by the monopoly for decades," he says. "Avantel wouldn't be here unless it thought it could win over a sizeable chunk of this dissatisfied market."

Avantel has also enlisted the Broncos, Mexico's most popular "ranchero" (country and western) group, to savanade Mexicans into calling their relatives in the US.

This is an important market, more than 5m Mexicans are estimated to be working in the US and most have left families behind. Peak use time in Mexico is not during weekday business hours but on Sunday afternoons, when families across Mexico's villages and market towns queue outside phone booths to call absent sons and husbands.

Alastra started by offering 20 per cent discounts on long-distance calls. Avantel followed by promising two flat tariffs: one peso (12 US cents) for night calls and two pesos during the day.

Alastra went one better by offering discounts of 30 and 40 per cent. Avantel then promised subscribers one month of free phone calls, which was matched by Alastra.

Meanwhile, smaller carriers such as Marcatel promise to undercut the "big three" players by spending less on advertising and flashy corporate headquarters, and concentrating instead on delivering cheaper phone services.

The price war, however, is not the upmost concern among the new carriers. Their biggest worries centre on Telmex's attempts to delay the onset of competition, and on whether the government will be a fair and impartial regulator.

"The success of the opening of the telecommunications market is of critical importance, not only for our sector but for the economy as a whole," Avantel's Mr Rodriguez says.

"We are responsible for the most substantial, visible investment taking place in Mexico today. Investors in other industries will be watching to see if the government can guarantee true, open competition."

Telmex's rivals already have many complaints. The dominant carrier has not yet disclosed the interconnection fee it is charging its own subsidiaries. If the price war intensified, Telmex's competitors say they would need this crucial piece of information to determine foul play.

"If there is true, open competition, Mexico will have better phone services, lower prices and a more efficient communications infrastructure," Mr Rodriguez says. "If there isn't true and open competition, there will be skirmishes, higher costs and fewer services."

Leslie Crawford

Poll worries hit Karachi shares

By Farhan Bokhari in Lahore

Share prices in Pakistan yesterday tumbled by more than 2 per cent amid growing political uncertainty and lack of confidence in the economy. The KSE-100 index of the Karachi stock exchange fell over 30 points, closing at 1,344.82, a day after Pakistan's main religious party, Jamaat-Islami, announced a boycott of the February 3 elections.

The latest assessments suggest the election may produce a fragile coalition government led by the Muslim League of a former premier, Mr Nawaz Sharif. Such a weak coalition would be unlikely to enforce tough reforms to attack rampant corruption and to encourage new investments.

The share price fall was also a sign of lack of confidence in the economic policies of the two-month-old caretaker government, appointed after Ms Benazir

Bhutto, was removed as prime minister by President Farooq Leghari.

The fall came on the first trading day after Mr Leghari announced new food subsidies. His televised speech met with scepticism in business circles for not going far enough to spell out a clear path for economic reforms.

Mr Raza Mirza, head of research at Karachi's Khadim Ali Shah Sukhri brokerage, said: "The whole country is in limbo. There's

no clear direction from the federal capital and investors are therefore nervous."

Ms Ahsheen Naqvi, investment analyst at BMA Capital Management, added that the fall was inevitable "because the economy is seen to be in a bad shape".

In recent months official foreign exchange reserves have sunk and the trade deficit has been larger than expected. See World Stock Markets, Page 26

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES						JAPAN						GERMANY					
Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Real wage rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Real wage rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Real wage rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.2	98.6	102.1	99.8	95.0	100.9	95.3	101.4	102.9	119.5	92.8	97.5	103.8	103.8	107.4	107.4	107.4
1987	105.6	100.7	103.9	97.5	75.1	101.3	92.5	103.1	100.0	122.8	100.1	95.0	107.9	107.1	110.9	110.9	110.9
1988	108.9	103.2	108.8	98.4	71.0	102.4	92.3	107.8	98.0	131.0	101.4	96.2	112.8	106.9	108.9	108.9	108.9
1989	115.2	108.5	108.9	101.4	74.9	105.1	94.2	114.0	98.8	132.5	104.2	98.3	117.1	108.0	107.5	107.5	107.5
1990	121.5	113.9	113.5	104.0	73.2	108.4	95.7	120.1	98.7	133.2	107.0	100.0	123.5	110.3	108.9	108.9	108.9
1991	126.8	116.3	117.3	107.3	74.1	111.9	98.8	124.2	103.9	133.2	110.9	103.4	131.3	109.6	107.5	107.5	107.5
1992	130.4	117.7	120.1	107.0	74.1	114.0	95.9	125.6	112.8	134.5	116.5	104.9	138.2	115.3	110.3	110.3	110.3
1993	134.3	118.2	123.1	106.7	75.8	115.4	94.3	125.8	118.8	132.3	121.7	105.1	145.6	119.2	112.2	112.2	112.2
1994	137.8	119.1	125.5	104.5	75.8	116.2	92.6	128.4	118.5	137.8	125.7	107.7	158.8	119.4	110.9	110.9	110.9
1995	141.7	122.2	129.7	105.4	68.9	115.9	92.0	132.5	115.8	138.6	127.4	107.5	155.8	110.7	115.6	115.6	115.6
4th qtr.1995	2.7	2.2	2.6	0.7	70.1	-0.8	-0.7	3.2	-1.2	126.6	1.7	1.3	4.3	3.0	115.1		
1st qtr.1996	2.7	2.2	2.7	-0.2	72.0	-0.3	-0.9	1.8	-0.4	122.4	1.6	-0.2	3.7	13.1			
2nd qtr.1996	2.9	2.4	3.4	-0.3	73.4	0.1	-0.9	1.8	-0.5	121.0	1.5	-0.6	4.7	10.3			
3rd qtr.1996	2.9	2.8	3.4	-0.5	73.8	0.0	-0.8	4.8	-3.5	118.1	1.5	-0.8		-2.7	110.7		
January 1996	2.5	2.3	2.7	0.7	70.7	-0.5	-0.8	4.3	-0.9	126.4	1.8	1.2	n.a.	2.0	114.3		
February	2.7	2.2	3.4	0.2	71.6	-0.5	-0.8	0.1	-2.3	122.7	1.5	0.0	n.a.	2.0	113.7		
March	2.6	2.0	2.6	-0.7	72.1	-0.3	-0.9	3.0	-2.4	122.4	1.6	-0.2	n.a.	5.1	113.2		
April	2.8	2.4	2.2	-0.2	72.3	-0.2	-0.9	2.7	3.4	122.1	1.7	-0.3	n.a.	1.0	112.1		
May	2.9	2.5	3.5	-0.1	73.0	0.2	-0.9	2.4	-0.1	121.2	1.5	-0.3	n.a.	0.0	110.9		
June	2.9	2.3	3.4	0.1	72.4	0.1	-0.9	2.1	-2.5	122.4	1.7	0.5	n.a.	2.0	109.9		
July	2.8	2.7	3.4	-0.7	73.9	-0.1	-0.9	0.8	1.2	119.0	1.4	-0.8	n.a.	0.0	110.0		
August	2.9	2.6	3.2	-1.3	73.7	0.4	-0.8	3.5	-5.6	118.3	1.8	-0.7	n.a.	-2.0	110.8		
September	2.7	102.7	105.2	101.4	73.7	0.0	-1.7	1.9	-1.9	118.4	1.7	-0.9	n.a.	11.2			
October	3.0	2.9	3.4	-0.3	74.1	-0.4	-0.8	3.0	-3.2	117.1	1.4	-0.6	n.a.	-2.0	109.9		
November	3.0	3.0	3.3	-0.7	74.4	-0.1	-0.8	2.7		115.0	1.5	-0.3	n.a.		109.1		
December	3.3	3.0	3.3	-0.7	73.7	0.1	-0.8	2.7		114.5	1.4	-0.3	n.a.		109.0		

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEA from national government and IMF sources, and by J.P. Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted. US - finished goods, Japan - manufactured goods, Germany - finished goods, France - intermediate goods, Italy - total producer prices, UK - manufactured products. Exchange rates: not seasonally adjusted, refers to manufacturing except France and Italy (average rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany - mining and manufacturing, other countries - manufacturing index. J.P. Morgan real effective exchange rate index. J.P. Morgan real effective exchange rate index versus 18 industrial countries, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

NEWS: UK

Pressure from underwriters leads to first relaxation of rules since 1936 Spanish conflict

Lloyd's to end bar on land war cover

By Christopher Adams, Insurance Correspondent

Lloyd's of London is to offer land war insurance for the first time in 60 years following an agreement with British insurers to relax the terms of an accord prohibiting this.

The accord has barely been modified since it was signed in 1936 as a reaction to the heavy and unexpected cost to insurers of air raids in the Spanish Civil War.

Rising demand more recently for such cover from risk managers at US multinationals seeking to insure fixed assets in Middle East hotspots and volatile African coun-

tries has encouraged several Lloyd's underwriters to seek changes.

"It's something we've been trying to make the Lloyd's authorities review for some time. Our clients are becoming impatient," said one Lloyd's underwriter.

New modifications agreed between Lloyd's and the Association of British Insurers (ABI) will in effect open up a new market for those specialising in war risk - some underwriters already offer cover for offshore war insurance like attacks on oil tankers. But there will be exclusions.

The risk of nuclear attack and

war between any of the US, Russia, China, Britain and France will not be insured against. No underwriter will be able to dedicate more than 2.5 per cent of its annual premium income to land war cover and land war risk will not form part of another policy.

The changes come as Lloyd's moves to make itself more competitive following completion in September of a recovery plan to reinsure billions of pounds of old liabilities through a new company, Equitas.

During 1986 to 1992, the worst period during its 306-year history, the insurance market suffered

more than \$8bn in losses. Others gained at its expense, with new companies based in Bermuda making inroads into its market share. War risk is one niche market, however, where Lloyd's believes its underwriters have the edge on rivals.

Land war insurance is now provided only by some government-backed agencies such as the Overseas Private Investment Corporation in the US.

Mr Ron Sandler, Lloyd's chief executive, said yesterday there was scope to save up to 10 per cent of the costs of the insurance market's central organisation if this body

continued to perform its present functions. Around £80m out of the £180m running expenses were "amenable to further cost reduction" without transferring costs to the market.

The insurance market has appointed the members of five boards managing new business units at Lloyd's. These were created as part of the efforts to increase competitiveness.

Mr Sandler will take responsibility for insurance services, business development and north America. Mr Nicholas Pawson will chair members' services and Mr Nigel Rogers facilities management.

British takeovers in US reach record \$40bn

By Paul Adams in London

Baring Brothers headed the league table for banks advising on UK takeovers in 1996, another year of large fees for investment banks. Acquisitions Monthly disclosed yesterday.

It was a record year for UK acquisitions in the US with UK companies buying 145 US companies for just under \$40bn, though half this total came from British Telecommunications's \$20bn purchase of the remaining 80 per cent of MCI.

It was also a record year for UK bids in mainland Europe where 244 companies were acquired for \$6.5bn (\$10.8bn). BT was also the biggest spender there with its \$1.1bn deal to buy 25 per cent of French telecommunications group Cogtel.

The loss last year of Barings' independence seems to have done no harm to Barings Brothers, the corporate finance arm of ING Barings, which for the second successive year has come top of the league of advisers on public and private transactions ranked by value of deals.

Barings recorded 31 deals in 1996, five more than last year, worth a combined \$11.8bn. They included 11 public takeovers worth \$23.3bn compared with only

Top mergers and acquisitions advisers

1996 Rank	1995 Rank	Adviser	Number of deals	Value \$m
1	1	Baring Brothers (UK)	31	11,800
2	2	Lazard Brothers (F)	34	11,096
3	3	ABN-Amro (NL)	32	10,330
4	4	Schroders (F)	32	9,826
5	5	Wells Fargo (US)	29	9,597
6	6	Kleinwortson (UK)	29	8,987
7	7	Paribas (F)	29	8,526
8	8	UBS (CH)	31	7,671
9	9	Wells Fargo (US)	29	7,538
10	10	Goldman Sachs (US)	12	7,461
11	11	Morgan Stanley (US)	19	7,308
12	12	NatWest Markets	35	6,004
13	13	BNP (F)	18	5,698
14	14	Deutsche Morgan Grenfell (F)	39	4,434
15	15	JP Morgan (US)	11	2,632
16	16	Robert Fleming (UK)	15	2,492
17	17	HSBC Samuel Montagu (UK)	36	2,492
18	18	Price Waterhouse Coopers (US)	108	2,375
19	19	Arthur Andersen (US)	73	2,061

1996 18-year ranking includes public and private deals. Source: Acquisitions Monthly

eight last year. Its largest deal was advising Royal Insurance Holdings in its \$2.4bn merger with Sun Alliance Group.

A total of 1,689 deals was completed in 1996 with a value of \$55.9bn, a few billion pounds short of last year's record. There were 13 public bids worth more than \$1bn each in 1996 out of a total 83 public deals worth \$23.4bn compared with 84

deals worth \$26.5bn the previous year.

The City of London is estimated to have earned a record \$1.1bn in fees from UK takeovers in 1996.

Lazard Brothers came second in the league with 34 deals. Lazard acted in two hostile bids, successfully advising Granada Group on its \$3.6bn takeover of Forte and acting for Rentokil in its \$2.1bn takeover of BET.

Final empire honours go to Hong Kong

Several Hong Kong citizens received honours yesterday in the British government's annual New Year awards of honours ranging from knighthoods to membership of what is still called the Most Excellent Order of the British Empire. They were the last such honours to be awarded in Hong Kong, where the British colonial administration will hand over to China in mid-1997.

Mr Anthony Au-Yang Fu, the colony's Commissioner of Land Revenue, receives a CBE (Commander in the Order), its highest honour in the current crop of awards. Mr Haidar Barmas, secretary for transport, was made an OBE (officer), the next rank in the order. Other Hong Kong OBEs included Mr Kenneth Fang Hung, honoured for services to industry, and Mr Stuart Harbison.

Hong Kong representative at the World Trade Organisation. In London, Paul McCartney of the Beatles was knighted, so that he became Sir Paul. Sir Andrew Lloyd Webber, composer of the scores for *Evita* and *Cats*, was made a lord. Alan Ayck-bourn, the playwright, was

knighted, and Joan Collins, the actress, was made an OBE.

The list of honours in the City of London was headed by Mr Raj Bagri, a multi-millionaire metal trader who has been non-executive chairman of the London Metal Exchange since 1983. He will become Lord Bagri.

Other City figures in the list include Mr David Rowland, chairman of Lloyd's of London, and Mr Michael Jenkins, former chief executive of the London International Financial Futures Exchange and now chairman of the Futures and Options Association and the London Clearing House.

From business and industry, knighthoods went to Mr Robert Horton, chairman of Railtrack; Mr Michael Pickard, chairman of the London Docklands Development Corporation; Mr John Laing, chairman of John Laing, the construction group; and Mr Brian Richards, co-founder of British Biotechnology and now chairman of recently floated Peptide Therapeutics.

Mr Jurek Martin, US editor of the Financial Times, was made an OBE.

N Ireland ceasefire hopes are damped

By Jimmy Burns in London

There is little prospect of an early ceasefire by the Irish Republican Army, Mr Martin McGuinness, chief negotiator with Sinn Féin, said yesterday. Sinn Féin is the political wing of the IRA.

Police fear that the IRA might mark the beginning of 1997 either with an attack on a member of the security forces or with a terrorist incident on the British mainland.

Mr McGuinness was strongly critical of the UK government for what he claimed was its failure to create conditions for an end to conflict.

"No government could be worse than this one; it has been a complete disaster for the peace process," he said. Mr McGuinness appeared to hold out an olive branch to the British Labour party, which is expected to win the 1997 general election.

Describing 1997 as a "defining year" for the "people of Ireland", Mr McGuinness said he hoped Labour would "have enough gumption and common sense to bring all the parties into negotiation".

UK NEWS DIGEST

Regions 'lag in manufacturing'

Only two areas of the UK are in the top 20 manufacturing regions in Europe, ranked by percentage of their workforce employed in manufacturing, the GMB trade union said yesterday.

Top of the league is Baden-Württemberg in Germany with 43 per cent of its workforce in manufacturing. Second is Lombardy in Italy with 42 per cent. Six of the top ten manufacturing regions are in Germany, three in Italy and one in Spain.

The English east Midlands, where 35.4 per cent of the workforce is employed in manufacturing, and the west Midlands with 34.4 per cent, rank 18th and 20th respectively, according to an analysis conducted for the union by the University of Durham's recently opened European database.

Mr John Edmonds, general secretary of the GMB, said the league table illustrated the "dismal failure" of the governing Conservative party's industrial policy. "There was a time when Britain was the workshop of the world and the West Midlands was the workshop of Britain," he added.

SHARE SETTLEMENT

New rules drafted for Crest users

New rules have been drafted for stockbrokers and custodians using the new Crest electronic share settlement system in London and are to be discussed with regulators next month.

The rules are designed to encourage participants in Crest, which has been bedevilled by settlement delays since it started up last summer, to complete their transactions. Eventually, the rules are expected to be enforced by fines, but Crest officials said they have not yet begun to discuss the level of penalties. They will also have to write new software to levy fines automatically from late settlers.

When Crest was created after the collapse of the London Stock Exchange's Taurus project to automate the settlement of share bargains, it was not intended to give it its own rulebook.

The idea was that discipline could be exerted by the exchanges, such as the Stock Exchange, whose trades were settled through the new system. But Crest found that it needed a central set of rules applying uniformly to all participants.

BUSINESS FAILURES

Companies face gloomier outlook

Fewer businesses failed this year than in 1995 but the rate at which bankruptcies are declining has slowed to a trickle, says a survey issued today by Dun & Bradstreet, the business information group.

About 41,107 companies went out of business in England, Scotland and Wales in 1996 compared with 41,303 in 1995, it says. The 0.5 per cent annual drop, the smallest in four years, compared with a fall of 5 per cent in 1995, 22 per cent in 1994 and a drop of 11 per cent in 1993. In 1992, business failures rose 31 per cent to 82,767.

"Things are starting to get worse," said Mr Philip Mellor, senior analyst at Dun & Bradstreet. Companies were often making very competitive bids in an attempt to win business, which in the longer term was harming them, he explained.

NOTICE TO THE HOLDERS OF

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NOTICE IS HEREBY GIVEN that CalFed Inc., a Delaware corporation ("CalFed"), entered into an indenture dated as of February 15, 1996 between CalFed and Manufacturers Hanover Trust Company, as trustee, as amended by the First Supplemental Indenture dated as of December 16, 1992 (the "First Supplemental Indenture") among CalFed, California Federal Bank, A Federal Savings Bank (formerly known as California Federal Savings and Loan Association) (the "Bank"), XCF Acceptance Corporation, a California corporation and a wholly-owned subsidiary of the Bank ("XCF"), and The Chase Manhattan Bank (formerly known as Chemical Bank, successor by merger to Manufacturers Hanover Trust Company), as trustee (as so amended, the "Indenture"), with respect to \$125,000,000 principal amount of CalFed's Convertible Subordinated Debentures due 2001 (the "Debentures"). The Debentures were initially convertible into shares of common stock of CalFed; the Bank was initially a subsidiary of CalFed; XCF, the Bank and The Chase Manhattan Bank, as trustee (the "Trustee"), entered into (a) a Second Supplemental Indenture dated as of December 13, 1996 (the "Second Supplemental Indenture") to amend certain anti-dilution and acceleration provisions in the Indenture relating to the conversion of the Debentures into shares of common stock of CalFed, and (b) a Third Supplemental Indenture dated December 13, 1996 (the "Third Supplemental Indenture") to make certain provisions for conversion of the Debentures pursuant to the terms of the Indenture in connection with the merger of CalFed, XCF, the Bank and The Chase Manhattan Bank, as trustee (the "Bank Merger"), effective January 1, 1997, of the Bank with and into the Bank pursuant to an Agreement and Plan of Reorganization dated as of October 16, 1995. In the Bank Merger, the Bank was the surviving corporation and each share of Bank common stock was converted into one share of Bancorp common stock, par value \$1.00 per share (the "Bancorp Common Stock"). Pursuant to the provisions of Section 1311 of the Indenture, as a result of the Bank Merger, the Debentures became convertible into the securities received by holders of Bank common stock in the Bank Merger, i.e., shares of Bancorp Common Stock. The Third Supplemental Indenture was entered into pursuant to the authority granted in Section 801(b) of the Indenture, under which the issuer and the Trustee are permitted to enter into a supplemental indenture without obtaining the consent of the holders of the Debentures "to make provisions with respect to the conversion rights of holders of Debentures pursuant to Section 1311" of the Indenture.

The Fourth Supplemental Indenture was entered into in connection with the proposed merger (the "Bancorp Merger") of CFB Holdings with and into Bancorp pursuant to the Amended and Restated Agreement and Plan of Reorganization dated as of July 17, 1996 (the "Acquisition Agreement") by and among First Nationwide, Bancorp and the Bank. Pursuant to the Acquisition Agreement and as a result of the Bancorp Merger, Bancorp will become a subsidiary of First Nationwide and each share of Bancorp Common Stock will be converted into \$23.50 in cash (without interest) and one-tenth of a Secondary Participation Interest (as defined in the Acquisition Agreement); provided that no fractional Secondary Participation Interest will be issued and, in lieu of such fractional interests, holders of Bancorp Common Stock will receive a cash payment to the amount determined in accordance with the Acquisition Agreement (the "Bancorp Merger Consideration"). Section 1311 of the Indenture requires that, as a result of the Bancorp Merger, the Debentures will become convertible into the Bancorp Merger Consideration. The Fourth Supplemental Indenture was entered into pursuant to the authority granted in Section 801(b) of the Indenture.

If you have any questions, please call the Bank's Investor Relations Department at (415) 894-1188.

BY: XCF ACCEPTANCE CORPORATION

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FT Surveys

Weak government and poor management have let UK industry down, says Lord Weinstock. He continues his reflections on 33 years at the top in discussion with Richard Lambert and Bernard Gray

Britain cursed by cliques and cartels

The thing which strikes me over a span of decades is that there aren't any rules which you can apply generally for successful government intervention in industry.

For example, two major moves occurred in the late 1980s with the intervention of the Industrial Reorganisation Corporation. One was the creation of what became the modern General Electric Company, and the other was British Leyland. I don't see any inherent reason why Leyland had to be a disaster, and I don't see that GEC had to be a success. So it could not have been the government's decision to encourage rationalisation in these industries which was critical, yet the facts suggest that the intervention was important. Maybe if the government had decided to do nothing they would both have gone bust.

Even in the absence of a formal industrial policy, companies are affected by the environment in which they are operating, and the government is preponderantly responsible for that environment.

Looking ahead, I don't think there has been, until very recently, any material change for our continental competitors in the relationship between industry and government, or in the way industry has been treated by government, for as long as I can remember. But now this is changing.

Historically, our foreign competitors were helped much more than we were, particularly in realising their international ambitions. This is notably true in the industries in which GEC operates: industries connected with public utilities and, of course, defence. In these areas, until you have demonstrated a new system you won't get customers for it. And if you can't sell it at home, you are not likely to sell it anywhere else.

The German electricity generating utility ordered a big gas turbine, for instance, so that Siemens could design and build such machines and associated systems for sale internationally. The French behaved similarly, and so on. But the UK didn't. Yet for us at GEC it was essential to acquire big gas turbine technology. That was one of the reasons we started talks with Alstom. We went in that direction not because Paris is a nicer city or the climate is better, but because that was where the technology was.

There are two main reasons for going into such deals: to gain access to markets and to technology. Through their joint venture, Alstom and GEC got both. With a single, strong management team, GEC Alstom has lived up to all expectations and blown away the critical nonsense which attended its birth.

On the other hand, when anything helpful was done by government for UK industry, say in export credits, it had immediately to be publicly announced in the House of Commons, sending our overseas

rivals flocking round to their ministries saying: 'Look what the British are doing, give us more help to resist.' Just imagine what the Japanese government must have done over the years to favour Japanese industry without letting on to the world.

Exchange rates

There are some advantages to doing business in Britain. For instance, having a floating exchange rate has allowed the currency to respond to unwelcome but irresistible economic pressures. Yet, if the UK joins in the single Euro-currency, I wonder how these economic pressures will manifest themselves. Indeed, I wonder whether the consequences of joining or of staying out have been considered in any great depth by governments, either in Britain or on the Continent. The debate has been entirely political, which is not unimportant, but we are rather in the dark as to what is actually likely to happen in everyday life. I don't know if there is a convincing argument one way or the other. If there is, I haven't heard it.

Economic management

Looking back to the government's handling of the economy in the 1980s and part of the 1990s, it was a severe disadvantage that government policy was so unstable. This made it impossible to commit to expansionist long-term plans. What passed for government policy in those days was not really any more than reaction. Few politicians seemed to have any positive idea of where the country was going - they only responded to external and internal pressures, as it were, on the hoof. It was simply stop-go, without anyone trying to stop it.

Another weakness at first was the operation of cartels. The electrical industry had earlier been completely dominated by cartels - they even used to fix turbine prices by weight! At one time or another, there must have been a ring for everything powered by electricity, though I never had the luck to be in one! This state of affairs was not finally cleaned up until the 1970s.

I read somewhere that the British are not class-ridden but clique-ridden, and I think I agree with that. There have been union cliques and capitalist cliques, political cliques and masonic cliques. I think all of that has damaged the UK.

Governments

I thought the 1945 Attlee government was a good thing. It had right on its side, insofar as there is a difference between decent behaviour towards the mass of people and indifference to their interests. That government cared about the people. Later, its policies got distorted and a lot of things went wrong, but the original basic intention was sound, if a little on the unrealistic side.

Attlee was a man of great

common sense and integrity, without hypocrisy, and willing to accommodate people who thought differently from him. I happen to think that Attlee was the best prime minister since the war, and certainly one who had a major effect on attitudes: only Baroness Thatcher has a comparable claim.

The early inspiration of Harold Macmillan, that great character actor, was probably his desire to reverse the working class poverty of his early days in politics. But one cannot help but suspect that later his principal objective was always the maintenance of power for himself and his class. I should have thought his great regret was resigning; when he found out he wasn't going to die; I should think he was very upset.

After Macmillan, there was no period of coherent government until Margaret Thatcher. She produced a policy which was consistent, not always what everybody wanted, but her ideas had the great merit of being simple. Her obvious and most

acknowledged contribution was to rein back trade union power which had become grossly excessive up to the time of the decisive miners' strike.

But in the end, it was the old thing about power corrupting. Mrs Thatcher's guiding light went out before the end of 1987, and she cut herself off from wise counsel in favour of some pretty awful cronies. No one who has power can afford to be without genuine critics. Critics are of two sorts: constructive and malevolent. You can do without the malevolent ones but the other you must have. They often prevent needless mistakes.

I rather regretted that Neil Kinnock never became prime minister. Until the 1992 election, he would not have made a good PM, but that contest changed him for the better. A decent man, Kinnock is no fool and might have surprised us agreeably. As a commissioner in Brussels, however, he may well turn out to be a pain in the neck.

As for current British politicians, I happen to think that Michael Heseltine is the right sort of minister for a government and a country like ours in these modern times, and John Redwood would be the wrong sort. Michael is intelligent, with energy and charisma to match, he wants to get things done and

he will. Heseltine is a really big man, but perhaps the most consistent and credible operator of the moment at Westminster is Kenneth Clarke. His recent Budget speech was a bravura performance made out of a virtual non-event. He has to be rated a brilliant politician. He has his own clear ideas and is not deflected by arguments to the contrary. I wish I could share his certainty on some issues relating to Europe.

On consultants

Consultants are invariably a waste of money. There has been the occasional instance where a useful idea has come up but the input we have received has usually been banal and unoriginal, wrapped in impressive-sounding but irrelevant rhetoric.

Of course, consultants do vary. The best are those with highly specialist expertise in specific industrial or scientific fields. The worst are the generalists, mostly economists, who are ready - for a fee - to give advice on virtually anything and whose qualifications to do so are virtually nil.

There is an overlap between this sort of consultancy and so-called business education, a subject in which faculties have been widely established in the universities. How business education can be equated with respectable academic disciplines of any sort entirely defies me.

There is no comparison between the quality of intellect called for in, say, the classics, or philosophy, or mathematics, and business methodology.

With the recent excitement in the ethical aspects of corporate governance and allied topics, the management gurus have found a new outlet for their attention, and for the introduction of more meaningless rhetoric.

I read recently a newspaper article by the well-known Dr John Kay, discussing upon the notion of the stakeholder society, an empty and useless term for whose introduction I understand he bears some responsibility. The expression does nothing to increase our understanding of, let alone to change, the nature of the relationships within society or within industry, but now that it has penetrated the political vocabulary it will provide yet another jingle to substitute for the real thought which needs to be given to people's concerns about the way things are.

Companies in the 1950s

They were very sleepy after 5 o'clock, perhaps because their rooms were well furnished with drinks cabinets. The big wheels sat in their offices 'making policy', hunching at the Savoy.

going to trade associations, overseas tours, heaven knows what, but doing little that we would recognise as work.

They weren't doing much to drum up business, and they weren't doing much to push ahead in technology. They weren't under any pressure either. There was a lot of internal warfare in these companies: it was a time when the moral atmosphere was unhealthy. You had repressive levels of taxation, all sorts of exhortations against increasing rewards for workers and managers.

The response was, in the case of the workers, an extraordinarily complicated payments system, which produced either more money, or fewer hours; either way it was higher costs.

Directors' expenses were a scandal. They were far more concerned with the means to get at untaxed money than they were with running their businesses. Yet this was understandable to an extent, because with heavy and artificial restraints on pay and punitive taxation, they had to resort to this sort of thing to maintain standards of living.

Of course, all this is impressionistic, and I can't prove it was happening everywhere. But I would be very surprised if what was going on in a major company like AEI (the engineering company acquired by GEC in 1997) was not being repeated in companies all over the Midlands, let alone in London and the City.

The IRC

In December 1985 my wife had a telephone call from the now Lady Lever, who was at the time in St Moritz. She wanted to arrange a dinner party to take place the following February or March. It seemed extraordinary to do this so far in advance, and from Switzerland to boot. When we turned up at this dinner, George Brown, Labour minister for economic affairs, was among the guests. The others were Marcus Sieff of Marks & Spencer, Ronnie Grierson, the Warburg banker, and Leonard Wolfson of Great Universal Stores.

There was a debate that day in the House of Commons on the creation of the Industrial Reorganisation Corporation. At nearly 10pm, George Brown and Harold Lever went off to the House to vote, not having touched a drop of alcohol, and came back later, the IRC having been started on its way.

Once George was back, the whisky flowed and he told us about the reconstruction of industry which the Labour party was going to undertake. He suggested the men present might help him by joining the IRC board. Ronnie Grierson refused, I

thought on the grounds that he didn't believe in state intervention. No one else was asked directly, except me.

If the government was indeed serious, it was inevitable that GEC would get involved in the restructuring and it would not be helpful if I were a director of IRC. Accordingly, the next day I declined the invitation to join. Ronnie Grierson, on the other hand, became managing director of the IRC having, I believe, been leaned on by Sigmund Warburg to take the job.

Whatever thoughts I have since had about government intervention in industry, I must say I took the idea then very positively. Industry was not in good shape, and things were not happening on their own. Nothing good was likely to emerge from leaving some industries as they were, and I thought we ought to do something to help the process of change along a bit. Certainly, a lot needed to be done in our industry.

It seemed to us that AEI was the principal block. It was apparent that they were portraying a facade of prosperity, when their real position was quite different. What they were really doing was having regular rights issues, out of which they were paying dividends on profits which were declared but not earned.

Talking with Kenneth Bond [Weinstock's right-hand man at GEC] one day about an interview about AEI in the Financial Times, I had the sudden conviction that if we didn't do something soon, there would be nothing with which to do anything. We agreed we had better act rapidly. After discussion with colleagues, we saw Kenneth Keith of Hill Samuel the next day and told him we thought we ought to merge GEC and AEI.

Kenneth Keith went round to see the board of AEI who received him without enthusiasm. We learned later that at the subsequent board meeting the only question discussed was which merchant banks should represent AEI in the defence against a hostile GEC bid!

The City and the media

GEC in my time as managing director has never needed to raise money in the City, which is just as well since such professional services as we have sought there have usually cost fortunes in fees.

Yet what the City and the media say about a company is important. When we are denigrated, irresponsibly and falsely, as we have on occasion been, it gives succour to our rivals at home and abroad. Competitors are always on the

look-out for bits of gossip to turn to their commercial advantage in the struggle for contracts. I'm afraid that in industry, the 11th commandment applies: do unto others before they do unto you. And our competitors will take full advantage of any ammunition supplied by the media, however inaccurate.

Auditors

When I started in business, auditors quite often had a material share stake in their client companies to demonstrate the purity of their interest; the size of partnerships was limited by law to 20; the services offered other than audit were very limited in scope; and the partners were highly respected members of the business community. In this context, I remember with gratitude and affection the important roles played by George Touche and Bill Ritchie in my early days with GEC.

Over the years, the public perception of the accounting profession and those in it has notably declined. Financial scandals have escaped detection on audit. Poor leadership has resulted in fragmentation, and badly thought-out standards, such as the silly one on inflation accounting, have failed to give confidence. Today, the firms in the profession are huge businesses offering a wide range of services on the back of their statutory auditing responsibilities.

It is not to the credit of their profession that accountants are constantly seeking to shuffle out of responsibility for their audits. The current spasm of concern for corporate governance no doubt owes something to reports of dishonesty on the part of directors, or managers, but it derives no less from the pressure of accountants to free themselves from potential damage from legal action by shareholders and others who can properly claim to rely on their work.

The critical importance of the audit as an essential source of reliable data in corporate affairs indicates that the role and the shape of the accounting profession requires comprehensive reconsideration and discussion, perhaps followed by appropriate legislation rather than reliance on self-regulation.

The idea that current audits produce a 'true and fair view' is either excessively bold or meaningless. Auditors can never know enough to give a true and fair view, but they can comment on a lack of financial controls, exaggerated profits or other possible abuses. They should make more limited and specific claims, and then take legal responsibility for their accuracy.

Thursday: Weinstock the man



'Michael Heseltine is the right sort of minister for a government and a country like ours... and John Redwood would be the wrong sort'

Photograph: Ashley Ashwood

Cadbury, Greenbury and Tweediebury

There has to be a certain amount of regulation of the way companies work but some of the new initiatives are dragging us in the wrong direction. At the moment, we have the work of the three committees: Cadbury, Greenbury and Tweediebury, to digest.

Cadbury wants the non-executive directors to monitor the performance of the executives. My first objection is that they can't really do so because they don't have the necessary knowledge. The second objection is that even if they could, the executives would be playing up to their idea of performance which is not the same as doing the job as it should be done. The third objection is that it sows distrust between members of a board.

A great thing in GEC over the years has been the feeling of comradeship among its managerial corps. Non-

executives and executives have worked together in harmony, yet no one could accuse our people of helping themselves to excessive pay or privileges.

The most stupid thing in Cadbury was the idea that a non-executive should be entitled to demand, if he wishes to take legal action in connection with a company's affairs, that the company should pay the cost. You can imagine such actions being started for all sorts of unsatisfactory reasons, including personal ones, and leaving people too busy defending suits to do any proper work.

People say it wouldn't happen in practice; it bloody well could happen in practice. It is no way to contemplate running a business to treat the non-executives as privileged spies able to pursue their own aims at a company's expense. They have no need of any

such remedy to discharge their duties in good conscience.

The Greenbury brief is even more difficult. How much is somebody worth in salary and in pension? How many share options should he have, and in what circumstances? If he seems to make a success of the business so that the share price rises, how do you impute an additional value to his contribution and how do you know the shares would not have risen anyway?

I didn't happen to see the final arrangement we made with George Simpson [Weinstock's successor at

GEC], and I agree that the threshold figure was silly, but there was nothing outrageous in it. His remuneration is not at all unreasonable for the job, and mostly he only got what Lucas was already giving him. If that is an example of the way Greenbury is meant to work, I'm afraid it doesn't work.

One also has to look back to the origins of the current fuss. The rows about executive pay started in the ex-nationalised industries. The salaries those people are getting for running those businesses are not anything out of the way: they are probably too

'If [executives in the privatised industries] were worth so much more... why were they not besieged with offers?'

about executive pay started in the ex-nationalised industries. The salaries those people are getting for running those businesses are not anything out of the way: they are probably too

small. But it has to be surprising that in all the years those concerned were working on much smaller salaries without anyone outside disturbing their tranquillity.

The conclusion to which one is forced is that if one believes in the market, it is not the salaries which are wrong, but the recipients. If they were worth so much more than they were receiving, why were they not besieged by employers with better offers?

The Tweedie accounting reforms were introduced towards the end of the 1980s when it was generally accepted that the accounting regime had become too lax. Tweedie has set out a framework and introduced some sensible changes. However, these changes have been introduced on top of a ramshackle collection of legislation, with the consequence that

accounts are becoming increasingly difficult to understand.

Management needs to be able to get its story across to its shareholders in a clear and uncluttered document. It is also desirable that accounts should be as far as possible what they say they are, sticking as close as they can to actual events related to payments and receipts, and eschewing artificiality. The best, cheapest and simplest way to do this is by a system of cash accounting, but that unfortunately is not practicable in businesses dealing with large contracts extending over long periods of time. Maybe we have reached the point where much of the detail should be included in a Securities and Exchange Commission-style filing while a simpler and shorter document is produced for shareholders and others.

TECHNOLOGY

The second stage of labour has just begun. Just a few centimetres of the baby's head are visible at the mother's cervix but already two thin tubes are affixed with a suction cap.

One glance at a monitor connected to the tubes shows the obstetrician that the baby's brain is not getting enough oxygen. The medical staff switch to a caesarean delivery, saving the baby from brain damage or even death, thanks to a new technology called Near Infra-Red Spectroscopy.

Research funding permitting, this could be the stuff of everyday obstetrics in three years' time. "With [the machine] we have a window into the brain," says John Wyatt, consultant neonatal paediatrician at University College London. "No matter how many drugs we had to widen the blood vessels or raise the blood pressure, until now we have been flying blind."

The same technology, which until recently was mainly used for revealing the shape of polymer structures, can also be employed in breast imaging and even predicting early organ rejection after transplants. The system is an inexpensive, non-invasive and harmless way of gathering real-time data at the bedside on oxygen level fluctuations in blood and other tissues.

Near infra-red light can penetrate up to 8cm of tissue depending on the wavelength of the light and the type of tissue illuminated. Like other scanning techniques such as ultrasound or X-ray imaging, NIRS works by extrapolating where the wave has been from the differences between what goes into the body and what comes out.

These differences arise from scattering (part of the wave is reflected and part changes direction) and absorption (the wave loses energy along the way). Scattering occurs at boundaries - skin/skull, blood/vessel, cell/cell, and is relatively constant. Absorption, however, varies with changing oxygen levels.

Oxygen is carried around the body by haemoglobin, a principal constituent and used by tissues via cytochromes in the cells. Both haemoglobin and cytochromes contain a "heme" molecule - an organic pocket holding an iron atom which binds and releases oxygen as necessary. Whether or not the molecules are carrying oxygen alters the amount of near infra-red light that they absorb.

The amount of oxygen present in every tissue can be read like a barometer of its condition. A local increase indicates an organ



Head scan near infra-red spectroscopy provides a 'window into the brain'

See red, save a life

A new device for detecting oxygen in blood and tissue could improve scanning, says Sara Abdulla

at work - an active muscle, a digesting stomach, for example - while a local decrease can mean abnormal circulation, low blood pressure or cell death.

NIRS is most powerful for investigating the fetal brain, as this is less convoluted than an adult brain and is encased in a much thinner skull. The probe described above was developed in the Department of Medical Physics and Bioengineering at UCL and is much more accurate than existing methods of detecting fetal stress during labour, such as ultrasound heart monitoring.

Once perfected, NIRS will also be a way of assessing the extent of serious neonatal brain injury while an infant is too young for existing technology to be used.

Apart from birth trauma, the

other leading cause of neonatal brain injury is cardiac surgery. Adre du Plessis of the Department of Neurology at the Boston Children's Hospital is pioneering the use of NIRS to reduce post-operative neurological dysfunction - now suffered by 25 per cent of neonatal patients. Dr Plessis has found that oxygenated cytochrome is an index of brain cell (neurons) damage. The surgeon can use NIRS to track imminent neuron death, tailoring therapy accordingly.

But, according to Wyatt, whose funding requests have been rejected by the Wellcome Foundation and the Medical Research Council, neonatal applications are the Cinderella branch of NIRS technology, as funds are sunk into better-funded areas

such as breast imaging and adult brain monitoring. "Neonatal care is not fashionable enough to interest the scientific bodies and industry is too short-termist to realise that there is enormous profit to be made here too," he says.

Sonazetics, Omron, Hamamatsu and Johnson & Johnson Medical are racing to develop cheap, simple equipment to measure brain oxygen levels of adult patients during routine anaesthesia. Dave Delpy, the Hamamatsu Professor of Medical Photonics at UCL, describes the potential market - "American clinicians eager to protect themselves from medical negligence claims" - as huge.

The main focus of industry investment is NIR breast imaging. Philips has experimental equipment in its Eindhoven labs in the Netherlands, as does General Electric in its Schenectady Research and Development Centre in New York state. Carl Zeiss and Siemens are running clinical trials in some German hospitals and both hope to have their machines on the market within three years.

NIR breast imaging works on the principle that a tumour is surrounded by more blood vessels and greater blood flow than normal, which leads to unusual light absorption. Unlike X-ray imaging, NIRS is cheap, portable, comfortable to use, harmless and sensitive to tumours less than 1cm in diameter. Moreover, the damaging ionising effect of X-rays is cumulative, but NIR imaging can be used as often as necessary with no ill-effects.

Thomas Moesta of the Robert Roussel Klinik in Berlin believes that with some improvements to minimise false-positive diagnoses, "NIR imaging will be a powerful adjunct to X-ray technology. It will make a significant contribution to reducing the risk of breast cancer by offering a breakthrough in detecting interval tumours" - those which arise between X-ray scans or are too small to be picked up by them.

There is some way to go before NIRS makes the transition from research tool to clinical aid. Mass production will lower costs, but at present only an expert can interpret the data. Researchers must start building a database of normal tissue oxygen values, explained Delpy at a recent Ciba Foundation meeting on the future of clinical NIR.

Sara Abdulla is science writer in residence at the Ciba Foundation

The next Technology feature will appear in Friday, January 3. The monthly Business & Environment page will appear on Wednesday, January 2.

Warehouse without the human touch

An automatic steel storage system in Germany cut damage and improved delivery, says Peter Marsh

In the gloom of one of the world's biggest metals warehouses, huge mobile cranes glide with a whoosh along rails at ferocious speed. Their job is to lift hefty steel coils in and out of a system of storage lockers as high as the nave in St Paul's Cathedral.

The installation, in Bremen, Germany, is among the most advanced examples of automated warehousing for the metals industry, aimed at smoothing as far as possible the flow of products to the customer.

The storage system is aimed at tackling an increasingly important problem for managers across a range of sectors: how to maintain close control of raw materials and finished goods, both to reduce stocks and to meet the rising demands from customers for just-in-time delivery.

In the case of the installation at Bremen, which is owned by Bregal, a three-way partnership forming one of Europe's biggest producers of galvanised and coated steels, there was a further reason for going ahead with the DM13m (£5m) installation.

Coating steel is a highly intricate process, in which the raw steel must be protected from dust and other impurities before the treatment process, and the finished coil must also be handled very carefully to minimise the risks of some of the coating being chipped during storage.

According to Stephan Fittkan, assistant manager for the storage installation at Bregal - a joint venture between the Luxembourg-owned steel company Stahlwerke Bremen, the Finnish steel producer Rautaruuki and Japanese trading house Itochu - specifying the storage system was driven partly by the need to remove manual operators as far as possible from the process to cut the risk of contamination and chipping.

The system, which has been in place fully for about two

years, has achieved good results, says Fittkan. The proportion of product that is spoiled during handling is close to zero, while in the conventional warehouse which uses lift trucks to handle materials the figure might be expected to be about 5 per cent.

With the system, "we always know where our products are and we think it has helped our operating efficiency," says Fittkan. The storage unit was constructed by Siemens Transplan, a specialist German materials handling company which is part of Siemens Siegener Maschinenbau, a large privately owned machinery group.

Each of these can be filled by coils weighing up to 40 tonnes. The maximum amount of steel it can hold at any one time is about 80,000 tonnes.

The three huge stacker cranes in the warehouse rush up and down its two aisles at up to 3m a second, taking steel in both its raw and finished form to and from the different units. The cranes act as the transport mechanisms for sending the coils, depending on whether they are in a raw or finished form, to and from customer delivery stations at the front of the warehouse or to the galvanising plant for processing.

I DESERVE A BREAK - I'VE JUST SHIFTED 2,000 TONNES OF STEEL WITH ONE FINGER



It was built as part of the DM420m galvanised steel plant which takes raw steel and converts it to a coated form at the rate of 450,000 tonnes a year, making it among the world's biggest plants of this kind. Customers for the coated steel are from a diversified range of industries, including white goods, automotive and construction.

The storage unit itself is a concrete construction 60m tall and 300m long. It has 4,300 storage compartments - high-tech versions of the luggage compartments found in

On average a crane picks up a coil every six minutes for transferring it elsewhere in the plant. No one is allowed inside the warehouse except for repairs or maintenance - this is both to remove the potential problems of humans upsetting the process and because of the risks of being crushed by the cranes and the associated automated handling mechanisms.

The entire storage system is operated by three people a shift who sit well away from the concrete pigeonholes in a control room.

BUSINESSES FOR SALE

KPMG

DUNN & CO
Classic Clothes for Men

Menswear Retailer

The Joint Administrative Receivers offer for sale the business and assets of Dunn & Co:

- 130 leasehold shop premises
- well established product range
- well known brand name
- £25m annual turnover
- headquarters and distribution centre in Swansea

Please contact the Joint Administrative Receiver, Paul Jeffery at KPMG, Aquis Court, 31 Fishpool Street, St Albans, Herts AL3 4RF. Tel: 01727 733000. Fax: 01727 733005.

KPMG Corporate Recovery

LEGAL NOTICES

INQUIRY ACT 1986

UNITED CUTLERS LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 48 of the Inquiry Act 1986 that a meeting of the members of the above named Company will be held at the offices of the Joint Administrative Receiver, Paul Jeffery, at KPMG, Aquis Court, 31 Fishpool Street, St Albans, Herts AL3 4RF, on 11 January 1997 at 11.15am, for the purpose of considering the proposed transfer of the business of the Company to KPMG Corporate Recovery.

Members of the Company are requested to attend the meeting and to bring with them a copy of the proposed transfer of the business of the Company to KPMG Corporate Recovery.

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CROATIAN INSTITUTE FOR HEALTH INSURANCE - MANAGEMENT

10,000 ZAGREB,

Margaretska 3, Republic of Croatia

Telephone: (385)-1-425-666/65 Facsimile: (385)-1-429-012

In accordance with Section 3 of the Regulation stipulating the procurement of goods and services and contracting of works ("National Gazette" no. 24/96, 26/96 and 32/96) the Croatian Institute for Health Insurance opens and announces the following:

INVITATION TO BIDS

to select the most favourable bidder for orthopedic and other aids, drugs and consumer and component supplies

The Croatian Institute for Health Insurance (hereinafter referred to as: Institute) opens the invitation to bids to select the most favourable bidder to supply the following:

- I. Orthopedic and other aids for insured beneficiaries of the Institute:
 - A. orthopedic and other aids
 - prostheses for arms and legs
 - crutches and electronic devices
 - wheel chairs
 - orthopedic shoes and orthopedic insoles
 - B. eye and ophthalmological aids
 - eye aids
 - contact lenses
 - eye prostheses
 - ophthalmological aids
 - C. hearing and audiotextual aids
 - D. aids permitting loud talking
 - E. other aids (weights, abdominal supports, aids for moving, seating and lying, walking aids, antistatic aids, artificial breasts, wigs, aids for digestive, urogenital and endocrine systems, supplies for hemodialysis and peritoneal dialysis, consumer sanitary supplies).
2. Drugs classified in groups for medical institutions:
 - A. drugs having effect on digestive system
 - B. drugs having effect on blood and circulatory system
 - C. drugs having effect on heart and vascular system
 - D. drugs having effect on skin
 - G. drugs having effect on urinary system and sex hormones
 - H. drugs having effect on endocrine glands system (excluding sex hormones)
 - J. drugs having effect on infections (excluding infections caused by parasites)
 - L. drugs treating malignant diseases and immunosuppressants
 - M. drugs having effect on skeleton and muscular system
 - N. drugs having effect on nervous system
 - P. drugs treating infections caused by parasites
 - R. drugs having effect on respiratory apparatus
 - S. drugs having effect on sensory organs
 - V. miscellaneous
 - pharmaceutical substances and packing materials for preparation of pharmaceutical preparations
3. Component and consumer supplies for medical institutions
 1. endoprostheses
 2. prostheses
 3. solutions for dialysis
 4. radiographic films
 5. chemical developers
 6. reagents for laboratory diagnosis (radioisotopes and immuno-microbiological)
 7. aids for urogenital system
 8. aids for digestive system

The bidders may be legal or physical persons, registered for manufacturing or trade of orthopedic and other aids, stated in article 1, groups of drugs stated in article 2 and component and consumer supplies stated in article 3 of this invitation. In the Republic of Croatia or abroad.

The bidders are to attach the registration documentation to their bids.

The bid must comprise:

1. Registration documentation.
2. Authorization to represent foreign manufacturer.
3. Statement accepting the bid.
4. Bank Guarantee for bid security.
5. Final price for ultimate use, expressed in US\$ and kuna (including all depending costs in respect of import and legal obligations).
6. Terms of payment.
7. Terms of delivery.

Bidding documentation, especially for each of supplies stated in articles 1, 2 and 3 of this invitation, may be obtained by prospective bidders from January 2nd, 1997 at the following address: Croatian Institute for Health Insurance, Management, Zagreb, Margaretska 3/II, room no. 13, in closed and sealed envelope bearing the following text:

The bids, together with bank guarantees for bid security, in the amount of 2% of total bid value, should be submitted not later than at 10.00 am on February 3rd, 1997 at the following address: Croatian Institute for Health Insurance, Management, Zagreb, Margaretska 3/II, room no. 13, in closed and sealed envelope bearing the following text:

"BID FOR:
- bidding package 1/orthopedic and other aids, stating type of aid/
- bidding package 2/drugs, stating group of drugs/
- bidding package 3/component and consumer supplies, stating type of supply
DO NOT OPEN"
stating the name, address and telephone number of the company.

Only those bids which will be submitted within the prescribed period of time in this invitation and which will include correct bidding documentation will be taken into consideration.

Bids submitted after the stated deadline or not written on bidding documentation will not be taken into consideration.

The opening of bids will be public.

The schedule and venue of public opening of bids will be stated in the bidding documentation.

System Freestyle Limited

The Complete Exhibition Solution

The Joint Administrative Receivers of System Freestyle Limited based in Huntingdon, offer for sale the business and assets of this established manufacturer and installer of modular exhibition systems. The principal features are:

- Stylax - exhibition system brand name and product range
- Turnover year end 30/6/1996 £1.2 million to blue chip customer base
- Forward order book for 1997 and customer stands held for repeat installations.

For further details please contact: Helen MacNaughton, Ernst & Young, Compass House, 80 Newmarket Road, Cambridge CB5 8DZ. Telephone: 01223 461200. Facsimile: 01223 324603.

ERNST & YOUNG

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International and is authorised by The Institute of Chartered Accountants in England and Wales to carry on business in England.

BUSINESSES FOR SALE

KPMG

DUNN & CO
Classic Clothes for Men

The Joint Administrative Receivers offer for sale the "Corporate Clothing" division of Dunn & Co. Principal features are:

- £1m turnover
- Order book circa £1m
- Blue chip customer base
- Opportunities for considerable growth

For further information please contact the Joint Administrative Receiver, Paul Jeffery at KPMG, Aquis Court, 31 Fishpool Street, St Albans, Herts AL3 4RF. Tel: 01727 733000. Fax: 01727 733005.

KPMG Corporate Recovery

BUSINESSES FOR SALE

Appear in the Financial Times on Tuesdays, Fridays and Saturdays. For further information or to advertise in this section please contact: Neil Lyndon on +44 (0)20 573 4674

Garvin Rodenbeck knew that the caviar on his plate had been grown on the Moon, then he shuttled to Earth, but he was awestruck, nevertheless, by the price they charged for it at Monsieur Neanderthal, one of London's starkest restaurants. Still, what the hell. No-one questioned Rodenbeck's expenses. He was the prime minister's special counsellor, and it was important that his guests this evening were handled skillfully. He wanted their support for a plan that had been devised to bolster the government's popularity. They could have all the Moon-grown caviar they wished.

Seated opposite Rodenbeck was David Weiss, a 29-year-old former champion javelin thrower who had won two Olympic gold medals, the second of which had been gained three years ago at the Tel Aviv Olympics of 2028.

In large measure, Weiss had been raised by computers. From the age of six, computers had supervised his upbringing and training. Even now, Weiss had an implant in his cerebral cortex. Via this implant, the computers still advised and protected him, especially now that he represented the Central Sports Council on the small, secretive committee that supervised the distribution of the vast sums raised by Megalot, Britain's national lottery.

"You look preoccupied, David," said Rodenbeck. "Are your computers whispering to you? What are they telling you?"

Astonishingly, Weiss blushed. It had not occurred to Rodenbeck that an Olympic champion who had been trained from childhood towards physical and psychological perfection could blush. "Sorry," said Weiss. "The computers have been telling me stuff about Monsieur Neanderthal, as well as things I didn't know about Mrs Summerell." He glanced at the woman seated between them. This was Ella Summerell, the Central Arts Council's representative on Megalot's cash-distribution committee.

"There must be things about Ella," said Rodenbeck, "that even your computers don't know." Summerell looked levelly at Rodenbeck, then turned to Weiss. "I doubt whether there is much they don't know about me, David," she said. "Increasingly, people have got used to the idea that computers know everything about them." Fiftyish, or more, Summerell had had all the regenerative treatments money could buy. She was ash-blond and well-fleshed, and was wearing a strapless evening gown woven from an iridescent, zero-gravity fabric.

"Right," said Rodenbeck. "This need not take long. All I want to do is tell you about the government's plan - my plan: the prime minister's gratitude is palpable - for a reallocation of the funds raised by Megalot, our beloved national lottery. "Megalot is still providing enormous quantities of money for the arts and for sport, both of which it has subsidised since the mid-1990s. But for the last few months our tracking polls have shown a fall-off in Megalot's popularity. This worried the prime minister. As you know, Megalot and its affairs are of intense public interest. Megalot is Britain's most important institution. But the prime minister is happy again now that I've determined how to restore Megalot's popularity and tackle the moribundity of British arts and sport."

Weiss did not flinch, but Summerell was angry. "Moribundity," she mimicked.

"Yes," said Rodenbeck. "The arts in Britain are enfeebled. Everyone says so. And the problem is money. For nearly 40 years Megalot has pumped money into the arts. The same goes for sport, where our prestige is diminishing for exactly the same reason: Megalot's billions. But we are getting ahead of ourselves."

Rodenbeck asked a waiter to bring more wine.

"As quickly as I can, I want to

LOTTERY 2031 MEGALOT US 320 M EURO CREDITS.

Circus Maximus 2031

A short story, by Michael Thompson-Noel

take you back to Megalot's origins - to remind ourselves of its development. Unless I do so you may not empathise with my plan for redistributing Megalot's billions. In its earliest days Megalot, prosaically, was called the National Lottery. But those were primitive times. The science of marketing was pre-amoebic. It wasn't until 2011 that they christened it Megalot.

"Anyway, they launched the

The whole thing is orchestrated most precisely. "Second, modern surveillance and demographic techniques mean that Megalot has become - imaginative. We haven't rigged Megalot. Yet from time to time it picks its own jackpot winners. It doesn't bother about the smaller prizes, but it fuses over the biggest ones - 100m Eurocredits or more - fastidiously.

"Some months ago, for example, it found a 19-year-old unnamed mother in the Liverpool slums, three of whose children had died in a bedroom blaze. Megalot examined its marketing expenditure, ticket sales and prize-distribution data for Liverpool, and then it waited. Five weeks ago Megalot awarded the tragic yet pretty young mother one of its biggest-ever jackpots, 320m Eurocredits. You heard about it. I'm sure. The media loved the story. I'm told that Megalot, whose consciousness is fast expanding, enjoys nothing more than rattling their chains. For a few days, lottery sales picked up, but the improvement hasn't lasted."

Rodenbeck paused. His guests had stopped eating. Summerell was drinking champagne. Weiss, who had eaten caviar but nothing else, was drinking lemon juice. Rodenbeck was keen to convince them of the attractions of the scheme he was about to reveal, though their support was not essential to its success. The plan would proceed, with or without their help.

And anyway, they were figureheads. They had been put on Megalot's spending committee because the government wanted the arts and sports councils to be represented by well-known and glamorous individuals. If push came to shove, Summerell and Weiss would do as they were told. They would not have a choice.

Summerell, Rodenbeck observed, was regarding him suspiciously, whereas it was impossible to know what Weiss was

thinking. Before leaving his office, Rodenbeck had flicked through their dossiers again. Summerell, a sculptor by profession, and twice widowed, was wealthy, and popular with the arts establishment. Her file stated that she was sexually active, and described her partners as "young, transient, manual-status males".

Strangely, Weiss's dossier contained little more than a recapitulation of his athletic career. Until he was 26, Weiss had lived at the national sports institute in Cumbria, which guarded its secrets fiercely. He was even wealthier than Summerell. Almost the only item of psychosexual interest in his file was the claim that from an early age Weiss had been guided by the computers that watched over him towards "optimum bisexuality" - standard procedure, apparently, for potential Olympic champions. Yin and yang, or something.

"Garvin, where is all this going?" asked Ella Summerell, glancing at Weiss. "David and I have not got all night."

"Almost there," said Rodenbeck smoothly. "I have summarised Megalot's story since 1994. In particular, I have stressed how modern marketing skills have kept its great heart pumping. But I want to circle back now to my opening remark about reallocation of the sums generated by Megalot."

"Over the years, there have been important advances in Megalot's financial efficiency. It now pays no tax, and the sum accounted for by running costs has been trimmed to 3 per cent of turnover. As a result, the proportion paid in prizes has risen from 50 per cent originally to 63 per cent, leaving 34 per cent for arts and sport. Megalot no longer gives money to charities or heritage projects. All that stopped in the 2010s.

"But the government has now concluded that Megalot's billions are wasted on arts and sport. For 37 years, lottery money has been pumped into arts and sports projects beyond number. Let us start with the former. Thanks to Megalot, Britain now has 11 international-class opera houses; thousands of new or renovated theatres, galleries, cinemas, libraries; and more than 250 subsidised television channels devoted solely to the arts, including literature. As a percentage of GDP Britain spends more on the arts than any country bar none.

"Yet what have we achieved? The answer, as I've indicated, is moribundity. Enervation. Ennui. By common consent, Britain now has no novelist, no playwright, no poet, no painter, no sculptor - you'll confirm what I say, Ella - no film-maker, no choreographer of world renown. As for all the new computer arts, we are not at the races. Megalot's money has had a deadening effect. Virtually all we have to show for it is a parasitic arts bureaucracy. No wonder the prime minister was worried. Among the underclasses there is dangerous resentment at the way Megalot's money has been squandered on the artistic pursuits of the overclasses.

"Almost the same is true of sport. In 1996, Britain won a solitary gold medal at the Atlanta Olympics. There was consternation, anger - national shame. So the government said it would spend 550m of lottery money a year on a programme to finance

Britain's most promising athletes, the hope being that Britain's sporting prowess would be revived in time for the Olympics of 2044. And so it was. At the 2004 games, Britain won five golds. In '24 - 15 golds. But three years ago, when David won his second javelin gold, the total was only seven, and the signs for Antananarivo next year are worrying. We're expecting only three golds.

"Naturally, the underclasses are less resentful of the money spent on sport than of the money given to the arts. But the government cannot allow Megalot's turnover and prestige to suffer. The time has come to act."

"So," interrupted Ella Summerell. "You are going to reduce Megalot's contributions to the arts and sport and divert the money into earlier variations of bread and circuses. This is bound up with the *Katharsis* project, isn't it?"

"It is everything to do with *Katharsis*," said Rodenbeck. "And the word's not *reduce*. The word is *eliminate*. All Megalot funding of arts and sport will cease from noon tomorrow. Instead, in accordance with the programme laid down by the architects of the *Katharsis* project, all Megalot's money will be directed towards the provision of a national circuit of games, in the style of ancient Rome. We will rebuild Circus Maximus and the Colosseum here in London. We'll have it all battles, chariot races, gladiators, wild beasts. Well, such wild beasts as we can find. There is a global shortage of big cats, let alone elephants.

"But plans are well advanced. For example, there will be four gladiator schools. Violent criminals, mainly. For some reason there is a surplus of killers who want to train as a *retarius* - a net-carrier. The *retarius*, you'll recall, had a net, a trident and a dagger."

"This is absurd," said Summerell, but not convincingly.

"On the contrary," argued

Rodenbeck. "The government's survival depends on *Katharsis*. These are exceptionally violent times. The *Katharsis* programme fights violence with violence, so to speak. As you know, all forms of censorship have been abolished. There are now no restrictions on what adults - those over 13 - may watch in their homes or in licensed places of entertainment. The plan to establish a circuit of Roman games is a logical extension of that policy.

"In addition, we will witness a reinvigoration of the arts and sport. Anyway, they will not be impoverished. Corporate sponsors will still donate large sums. But the artistic impulse flourishes best in relatively straitened circumstances. The same is true for sport."

David Weiss flexed his huge shoulders. "What do you mean, Garvin - re-establish Circus Maximus? A copy? An exact copy?"

"Glad to have your attention at last, David," said the prime minister's special counsellor. "Yes. We are going to build centimetre-exact copies of Circus Maximus and the Colosseum."

"So what do you need us for?" asked Summerell.

"Nothing elaborate," smiled Rodenbeck. "Before 11am tomorrow I want you both to sign a statement endorsing the plan to reassign Megalot's billions to the *Katharsis* programme for the purposes I've outlined. We'll send you something. You're not unimportant people. But the government put you on Megalot's committee and the government can just as easily despatch you. You have been paid a lot of money to sit there rubber-stamping other people's decisions. If you like, you can stay. Or you can leave voluntarily. Your signing-off fee would be generous. But the statement must be signed."

"Suppose we don't," said Summerell.

"Ella," said Rodenbeck. "Don't even think of it. We could discredit the pair of you in an eye-blink. Nothing too sophisticated. Just something juicy. Financial high jinks in which both of you are implicated. Missing Megalot money. Some carnality, of course. The media would expect that. But none of this will happen. You are intelligent people. And now I must be gone. Got to get back to Downing Street. There is always work to do. These minority governments are nothing but a pain."

After Rodenbeck had gone, Weiss and Summerell sat in silence for a while. Summerell continued to drink champagne. Eventually, she said: "We ought to talk. David. My apartment is a block away. I want you to come with me. Unless you'd rather not."

Beyond the house-tops, David Weiss could see a pink gleam of early light. He was over by the window. He had been listening to his computers. At last he returned to the bed. Ella Summerell looked at him admiringly. "I can see now why they gave you two gold medals, David. What did your computers say?"

"Well, it's all completely true," said Weiss huskily. "Plans are far advanced. But re-establishing the Roman games was not Rodenbeck's idea. It was Megalot's idea. My computers are practically tongue-tied this morning. Not themselves at all. Can you guess what their last words were?"

"No," said Ella, offering him her breast.

"They said: 'Ave Megalot!' - 'Hail Megalot!' I think that's really cool."



Television in 1996/Christopher Dunkley

Laurels and raspberries

Instead of starting with laurels for the best of the year's programmes, let us begin this review of television in 1996 with raspberries for some of the stinkers. *Rhodes* was not just a rotten drama serial but a memorable one because the BBC lavished so much money and trouble on it. The locations were impressive and the photography superb, but almost everything else was disappointing. If you began by knowing little about Cecil Rhodes and the early days of South Africa, you ended up still knowing little but being thoroughly confused into the bargain. The clearest element was the message: "Racism and imperialism are Bad Things". Who on earth thought it worth spending all those millions to deliver such a familiar message? The BBC was also responsible for bringing back *The Liver Birds*, a comedy idea only marginally less disastrous than the one they have just announced for 1997: to mount a doctored repeat of *Till Death Us Do Part* with the episodes in which Alf Garnett uttered his notorious racial remarks suppressed. Have the people now running the BBC never read *Nineteen Eighty-four*? Are they not aware that Orwell thought it

up while working at the BBC? And do they really not understand the point Orwell was making when he put Winston Smith in the Ministry of Truth and gave him the job of re-writing the events of the past to make them chime with the politically correct values of the present?

The year's output was chock-a-block with programmes which either pretended to take the supernatural seriously, or - worse - really did so. This idiosyncrasy (frequently explained as millennial hysteria, though why such a sudden should be caused by a man-made calendar system is far from clear) spread across all four terrestrial networks. Richard Dawkins mounted a brave and lonely stand against it, but all the signs were that the foolishness would continue. Similarly the fashion for "girlie" series, in which young women strive to ape all the most unpleasant characteristics of

young men, not only continued but expanded. In series such as *Pajama Party* and *The Girlie Show* the babes demonstrated, to the credit of the female sex, that in laddishness they came a poor second to the real McCoy.

There were botched efforts in almost all departments. The home produced *Newsnight*, a sort of underground fancy dress party, competed with *The Stand*, a tedious horror import from the US, for the Most Preposterous Drama Serial Award. Both were brought to us by the BBC. Paul Merton and Gaby Roslin went head to head in a trial to see who was least capable of copying successful old formats: Merton came unstuck trying to imitate Tony Hancock and Roslin found herself out of her depth while trying to present a 1970s style chat show. But the most fiercely fought contest was for Most Long Winded And Boring International Sports Event. The result was a

dead heat between *The Olympics* and *Baro 96*.

Yet there was, happily, much worth celebrating too. Thanks to the great success of *Pride and Prejudice* in 1995, adaptations from classic literature came crashing back into fashion and towards the end of the year we were treated to *Emma* and *Moll Flanders* by ITV and *The Tenant of Wildfell Hall* by the BBC. It seemed a pity to have them packed quite so tightly on top of one another, but with television it never rains but it pours. Much was made of comparing these productions, to the detriment of one or another, but history will surely say that all three were pretty good. We now have *The Mill On The Floss* to come and doubtless many more. We should celebrate because nowhere else - not in foreign television or anybody's cinema - is this sort of material done better than on British television.

1996 was not one of the best vintages for contemporary drama

serials, yet there were four worth noting. *Our Friends In The North* (BBC again) was admired more elsewhere than it was on this page. What appealed to others - the sweep of the story and the manner in which the lives of fictional characters were fitted into real historical events - seemed to me sometimes irritatingly contrived. Moreover the potential strength of the characters was, for me, too often sacrificed on the altar of historical inclusiveness. *Murder One*, which was shown first by Sky and then repeated by the BBC, proved that even after a seemingly endless deluge of crime and detection a really good example - this one from Steve Bochco in the US - can still be refreshing and compelling.

The other two dramas, *Korako* and *Cold Lazarus*, were both written by Dennis Potter in his extraordinary race against death, and presented posthumously in the spring by the BBC and

Channel 4. It became fashionable among the grumbling classes to dismiss them as "typical Potter" and "full of Potter mannerisms" and, unsurprisingly, they were both. But since Potter had, by the end, become the best creator of contemporary drama for television, that scarcely seems like condemnation.

There were memorable documentary series including the second batch of *People's Century* which deservedly won an International Emmy for the way it is telling the history of the 20th century via the man in the street. In *Wheeler On America* the BBC's experienced foreign reporter Charles Wheeler showed the value to a broadcasting organisation of not continually replacing correspondents with new young faces. *FDR*, another series about America, specifically about Roosevelt, was a finely crafted bit of classical programme making; and *Soho*

Stories was a splendid example of the state-of-the-art documentary using a modern lightweight camera to shoot intimate footage in all conditions. All four of these series were also made by the BBC.

The most impressive programme category of the year, however, was the arts series. January brought *The House*, an everyday story of opera folk which showed what life can be like backstage at the Royal Opera House, Covent Garden. It was deeply revealing and wickedly amusing. In April came *A History Of British Art*, written and presented by Andrew Graham-Dixon who proved just how revelatory and revolutionary a little bit of thinking can be. He teased us and went over the top occasionally, but this was the most interestingly argued series on its subject since *Angels in the Streets*. Then in June we had *Dancing In The Streets*, the best ever television series on rock and roll; and in November Hughes' packed and fascinating guide to the history of American art and culture.

All four of these arts series were made by BBC2 which for this and a host of other reasons is consequently declared Network Of The Year.

COMMENT & ANALYSIS

Straight talk for survival

Life has taken on a whole new meaning for Major Ruranga Rubaramira, an officer in the Ugandan army, since he made a shocking discovery seven years ago.

"I am more of a man than I was before," he says. "I have more focus on life. I can accomplish more. I have learnt how important it is to live, something I don't think I knew before."

The turning point for this army man was a revelation that would have triggered suicidal depression rather than spiritual awakening in a lesser man. While still in his early 40s, he found he was carrying HIV, the virus which causes Acquired Immune Deficiency Syndrome (Aids).

Instead of succumbing to the disease, Major Ruranga went in to battle with the same drive he had shown fighting in the bush for the guerrilla forces that brought President Yoweri Museveni to power in 1986. He started counselling afflicted fellow soldiers, then helped set up a centre to offer advice to the public.

His regular spots on "Capital Doctor", a radio programme which offers frank advice on safe sexual practices, have made him a household name. Now the major is trying to set up a network linking all those infected with the virus, estimated at one in 10 of Uganda's 20m inhabitants.

If this dynamic approach is typical of the man, it is also typical of the country. Uganda, more than any other African nation, has spared no efforts in its campaign against Aids since registering its devastating impact in the early 1980s.

Uganda has opted for openness in dealing with the problem, brushing aside the natural prudishness of a conservative society and objections from the religious establishment.

Prominent personalities go public when they are infected with the virus - spread by heterosexual

Uganda's openness in tackling Aids has led to sharp falls in infection rates, says Michela Wrong

means in Uganda as in much of Africa. Condoms are liberally distributed and free testing for the disease is available. Straight Talk, a newsletter for teenagers distributed in the government-owned newspaper, discusses sex - and how to avoid infection - in explicit detail. On the main roads, huge billboards recommend fidelity, abstinence and warn against the lustful feelings generated by alcohol. And because the campaign has the blessing of President Museveni, Aids research attracts the brightest graduates, rather than being dismissed as a career dead-end.

Today that stance appears to be paying off. In what experts are hailing as a breakthrough for an African nation and the first real spark of hope for the continent, Aids has taken a dive in Uganda.

Evidence of a decline in HIV first started appearing in 1993, in blood tests carried out on pregnant women attending ante-natal clinics - the easiest way of monitoring infection rates in the general population. But the health ministry was wary of declaring victory prematurely.

Now, with the results showing a consistent trend, confidence has grown. The incidence of HIV in young women aged between 15 and

19 years, considered a particularly vulnerable group, fell from 16.9 per cent in 1991-92 to 11.3 per cent in 1993-95. Among 20 to 24-year-olds, it dropped from 24.7 to 16.7 per cent over the same period.

The most dramatic falls have been registered in Kampala, where young people have the easiest access to condoms and expert advice. But rates in isolated rural areas also appear to be stabilising or falling.

Originally there were fears that the decline reflected the death of a large part of the infected population. But further study suggests that a radical change in sexual behaviour - exactly what the government has been urging on its people - is responsible.

"We have a tremendous wealth of behavioural data which suggests people are not having as many casual partners as before, they're using condoms and they're delaying the start of sexual activity," says Dr Elizabeth Marum, Aids technical adviser to USAID, the US aid agency. "When you see the same trend in study after study you have to believe it."

With so many friends and family struck down by the disease, nicknamed "alm" by the locals, Ugandans - like the homosexual community in the US - have

adapted their lives to the harsh reality of Aids.

Teenagers are hesitating before plunging into sexual activity. Couples thinking of starting a relationship get tested first. Wedding dates are not set until both partners have been certified as HIV-negative.

"Almost no one in Kampala now gets married without being tested. There's no living blindly in a state of uncertainty any more," says Ms Catherine Watson, technical adviser to Straight Talk.

Since 1991, over 300,000 Ugandans have voluntarily presented themselves for testing. "In no other African country have so many people taken that step. It is a testament to the courage of the average Ugandan citizen and the level of community awareness," says a researcher.

Other African countries have been unwilling to adopt Uganda's forthright methods. In neighbouring Kenya, for example, President Daniel Arap Moi has ruled out sex education in schools. Christian and Moslem leaders have burnt condoms in public, while a "miracle" cure is receiving government funding.

"Uganda shows that when you have a country with the political will to be open and candid, a population that is receptive and donors who are consistent in their support, you can actually see results," says Dr Marum.

The future remains frightening for Uganda nonetheless. Entire rural communities have been wiped out, and a generation of orphans left to fend for themselves. At 42, average life expectancy is the lowest in the world - though until the battle against HIV began to show results, it was expected to fall to 31 by 2010.

But having faced the worst, Uganda now begins to see a more optimistic future. Its neighbours, by contrast, have yet to register the nature of the epidemic they are facing.



Warrior against Aids: Major Ruranga Rubaramira

LETTERS TO THE EDITOR

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Nuances missed in questioning EC trade move on Burma

From Mr Marino Marich.

Sir, You may have legitimate grounds to question the motivation behind the European Commission's proposal to revoke Burma's tariff privileges in protest against its alleged use of forced labour ("EU and Burma", December 19). But it should be pointed out that under General Agreement on Tariffs and Trade article XX (the so-called exceptions to the general rules), nothing prevents a World Trade Organisation member from adopting measures "relating to the products of prison

labour" (article XXe). Also, withdrawal of tariff privileges under the generalised scheme of preferences is a different legal matter from imposition of punitive tariffs.

Another common misconception is that the multilateral rules do not contain provision for environmental regulation. Exceptions to the WTO rules include measures "relating to the conservation of exhaustible natural resources" (art. XXe), or measures "necessary to protect human, animal or plant life or health" (art. XXb).

The trade/labour and trade/environment interface is more nuanced than your editorial suggests. Nonetheless, your call for constructive policy initiatives and skilful diplomacy with regard to Burma is a much needed policy alternative on both sides of the Atlantic.

Marino Marich, director, intl. investment and finance, National Association of Manufacturers, 1331 Pennsylvania Ave., N.W., Suite 1500N, Washington, D.C. 20004, US

Tax breaks can be good for the state

From Mr Richard Baron.

Sir, You report that Mr Jürgen Stark in the German Finance Ministry wants to stamp out unfair national tax practices ("Bonn minister attacks 'unfair' EU tax havens", December 23). However, legislating against low tax rates or specific reliefs which individual countries choose to offer reflects an attitude to the state on which we can improve.

The attitude is that the state should be allowed to grow to whatever size it chooses, independent of market forces. A business can only grow if it can persuade customers of the value of its products. The state, on the other hand, can choose to provide whatever goods or services it likes, and can use the tax system to force its citizens to be its customers regardless of their individual wishes. (Their collective wishes are taken into account through elections.)

The improvement is to impose some control over the state, using the choice of location of economic activity which the single market offers. Tax competition could make governments think like businesses and only provide services when their provision could be justified to the customers, the citizens. Countries which offered moderate levels of taxation while still raising enough revenue to provide a civilised level of public services would attract both capital and the most productive labour. That country would benefit from fuller employment and a higher standard of living. While one sympathises with Germany's short-term difficulties, on a longer-term view Germany could be as big a beneficiary as any country from such a development.

Richard Baron, taxation executive, Institute of Directors, 116 Pall Mall, London SW1Y 5ED, UK

Christmas message seems questionable

From Dr Ian Collis.

Sir, I tell you that your editorial ("Greed and the good life", December 24) was wrong and that covetousness, or avarice, is usually considered one of the deadly sins, will your newspaper mend its wicked ways?

Ian Collis, 55 Delaware Mansions, Delaware road, London W9 2LJ, UK

From Mr Andrew Cecil.

Sir, Your editorial ("Greed

and the good life") seemed in rather inappropriate taste as the newspaper's Christmas message and more widely as what must be taken to be the moral perspective of your perception of the underlying rationale for economic activity.

To argue that values such as "trust", "generosity" and "co-operation" are worthwhile objectives might seem honourable. However, when the reason for your support is focused exclusively on the bottom line, with the result-

ing insinuation that there is not necessarily an intrinsic value to society from pursuing these objectives, the moral stance of the editorial is thrown into question.

If the editorial is a fair reflection of the state of affairs, there is genuine cause for concern. If not, the FT should reflect on the agenda it is putting forward to its readers.

Andrew Cecil, rue Juliette Wytsman 72, 1050 Brussels, Belgium

Results dictate the right direction

From Mr David Jenkins.

Sir, Lucy Kellaway poses the question ("Happy new year, happy new environment", December 23) what happens if a company in which people are empowered is merged with another that is governed by the command and control principle? She suggests that, in practice, where this occurs it is the orthodox way of running a business that prevails.

This course of action would be counter to the achievement of commercial goals. Where a company introduces empowerment this strategy is not working unless it produces results

that can be measured. A common result is to reduce the costs of running the business. (For example, over the past 18 months a pharmaceutical factory, by empowering teams, has secured a reduction in costs in excess of £3m without a significant reduction in the numbers of staff employed or investment in new machines.)

Companies that are run on the command and control model do not achieve comparable results. On the contrary, they encourage behaviour that undermines their own efforts to achieve profitability - even survive

by rewarding negative action, for example, managerial empire-building - thereby draining scarce resources and discouraging staff from making a positive contribution by devising more efficient methods.

In a business expanded by merger which path to take is not a difficult decision for any rational management. Which system is producing results that can be measured? The answer tells them which way to go.

David Jenkins, TEK Associates, 9 Middle Way, Oxford OX2 7LH, UK

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Grey is beautiful

The experience of Toledo, Ohio, reflects the re-birth of America, says Patti Waldmeir

ly radiant: the sense that, at least for the moment, all is for the best in the best of all possible economic worlds.

Growth is strong, inflation low and the fundamentals set fair for the future. The US budget deficit, despite the political rhetoric about the need to balance the budget, represents only 1.4 per cent of gross domestic product - half the figure demanded of European Union countries hoping to be part of the single currency.

And the civilian federal government is smaller, as a percentage of the workforce, than at any time in 60 years. But it has been a tough psychological journey to reach that point - not least in Toledo. Heavily dependent on the motor industry based in nearby Detroit and famed for its rigid and poor industrial relations, this city hit industrial bottom in the 1980s harder than most.

Competition from Japanese carmakers nearly destroyed it. Resurrection came, ironically, only when Toledo adopted Japanese-style management methods and the concept of industrial teamwork - and in some cases, not until local companies sold out to their Japanese competitors.

It was a humbling experience for the erstwhile masters of the automotive world.

It is from this unAmerican blueprint of tripartite corporatism that Toledo's new, all-American optimism has grown

For years, they fought the industrial invaders from Japan, stooping as low as physical attacks on Japanese vehicles and citizens. In the end, they found themselves all but colonised.

Today, Japanese management methods reign in Toledo, and in some plants, Japanese managers stand alongside (or above) their US counterparts. Yet it is hard to find a business leader - or even a production line worker - who does not hail the change.

Toledo industrialists admit that good luck and a more favourable exchange rate helped their recovery. They acknowledge that the renaissance may be threatened, once the cycle of motor industry growth turns downward. But they argue the lessons learned during the city's bout of self-examination will mitigate the effects of a downturn.

At New Mather Metals, Mr Ron Malcolm - president of this company which makes stabiliser bars for car suspension systems - is explaining Toledo's comeback strategy. His blue workshirt bears a white lozenge embroidered with his first name: next to him, a Japanese man stands in silence, identified only as "Watanabe". He is the representative of NKK Spring, the Japanese company which purchased Mather Metals in 1987 and renamed it New Mather.

Mr Malcolm's tale strikes one as strangely unAmerican: the story of how a town - crippled by what in other countries would have been called class warfare - mapped out a happy future of co-operation between management, labour and government. But everyone agrees the key to Toledo's success was ending the warfare between management and labour.

"Toledo had a reputation as a bad labour town," says Mr Joe Tomasi, director of

the Northwest Ohio Center for Labor Management. "In those days, if you walked through the plant, you didn't get a high-five from the employees, you got an obscene gesture."

The recession of the early 1980s finally put paid to all that. "We realised that, if we weren't going to get it together together, we weren't going to get it together at all," he says. "The only way to save jobs was to become partners in making it work."

That is the approach which saved the Toledo Jeep plant, then owned by American Motors and the oldest continuously operating motor plant in the US. Mr Bruce Baumhower, president of the local branch of the United Auto Workers union, explains how the new partnership was forged: "We were making rocker bars for \$5 each, and the company could outsource them for \$4 each. They offered us a chance to do the job cheaper than the outsourced company - or lose 140 jobs. In the end, we were making rocker bars for \$3 each. That turned around our relationship with management."

Chrysler subsequently bought Jeep from American Motors and today the Jeep plant is exporting vehicles to Japan. President Bill Clinton even sought to cash in on Jeep's success, visiting the plant during his recent campaign to drive the two-millionth vehicle off the assembly line.

But says Mr Tomasi: "If we hadn't changed labour/management attitudes, we wouldn't have a Jeep plant here today." It is the same story at New Mather Metals, and throughout Toledo.

Management and labour are not the sole proprietors of the city's comeback strategy: the third partner is government - as in the renovation of the city's station. Lucas County raised a special tax levy to help fund the Regional Growth Partnership, Toledo's economic development agency. City and state offered tax incentives to attract investment.

And it is from this basically unAmerican blueprint of tripartite corporatism that Toledo's new, all-American optimism has grown.

The wheel has come full circle, from pride to despondency and back to pride. Toledoans are masters of the universe once again. What an American feeling.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

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Mr Clinton's global parish

The responsibilities of US global leadership, never light, are particularly complex in the post-cold war era. Mr Bill Clinton enters his second term with a new foreign policy team but with the conventional expectations that his mark on history, whatever his personal inclinations, will be mostly determined by what he accomplishes outside his own country.

Mr Warren Christopher, the outgoing secretary of state, is fond of saying that US foreign policy should reflect American values. These he defines as democracy, free markets, human rights, and collective economic and military security; laudable goals but easier to define than to implement.

It does not help that the current mood of the US is inward-looking. That reflects a parochialism evident elsewhere in the world, but it matters more when you are trying to run the sole remaining superpower. There are isolationist, even xenophobic, tendencies on both left and right of the US political spectrum. Mr Clinton, to his credit, does not share these but they are strong enough to limit his freedom of manoeuvre.

Much of the second term agenda is predetermined by policies already in train, and by problems which require continued management. These range from the expansion of Nato, which will require ratification by the US senate as well as careful handling of Russia, to Middle East, Balkan and Irish peace processes all threatened by intransigence and terrorism. US relations with a powerful but prickly China will require constant attention.

Modest wish-list

But it is still possible to construct a modest wish-list for the president, starting with the international institutions which can be so helpful in sharing global burdens. Mr Clinton must explain to his countrymen, including the Republican majority in Congress, that a world leader cannot afford to leave its dues to the UN and the World Bank unpaid. Mr Kofi

Annan, the new UN secretary general, was after all the preferred US candidate. The least his discreet sponsor can do is give him the tools for the job.

Second, the lesson of the Balkans and central Africa is that more preventive diplomacy is needed, sometimes backed by use of force to avert genocide or unmanageable refugee flows. Such intervention will seldom be credible without US involvement. There are welcome signs that Mrs Madeleine Albright, the incoming secretary of state, thinks in these terms, as does General John Shalikashvili, chairman of the joint chiefs of staff.

Global policeman

That should not - and, for domestic political reasons, will not - lead to the US assuming the role of global policeman. But it could generate a productive debate re-defining America's global interests beyond those usually considered vital to national security. If the consequence is fewer US troops in western Europe, where they are less needed, and more on carefully designed assignment elsewhere, then so be it.

Some old policies have yielded meagre results and need re-examining, among them the so-called "dual containment" of Iraq and Iran. Saddam Hussein certainly needs containing, but preferably in ways that discriminate between him and his victims. As for Iran, the effort to isolate it through trade sanctions risks rebounding on the US. Cuba, an insignificant real threat these days, comes into the same category.

But above all, a president who now knows the foreign policy ropes should use his second term to address the American role in the world more consistently than he did in the first. That does not require a rigid "Clinton doctrine", but rather the application of his subtle mind and communicative skills. The presidency remains a powerful "bully pulpit" against the forces of parochialism, if the occupant is prepared to use it for that purpose.

The sun sets on Empire

One certain prediction can be made for 1997. Half-a-century after the granting of independence to the Indian sub-continent, the transfer of Hong Kong to China will see the sun finally set on the British empire.

The old imperial power will retain a handful of far-flung dominions. But the Falklands Islands, Gibraltar, Anguilla and the rest are little more than tiny specks on a map which was once swathed in red. Together, such relics of a more glorious past speak for fewer than 200,000 citizens.

When the process of European decolonisation began in earnest in 1947, more than a third of the world's population lived in territories ruled by the great powers of the 19th century. Now only a quarter of one per cent remain under foreign sovereignty, most of them in Hong Kong or in the US dependency of Puerto Rico.

Looking back, Britain has a credible record of disengagement. It is possible to argue now that national boundaries were sometimes drawn in the wrong places. The present condition of Pakistan, for example, may lead some to question again the wisdom of partition.

There were disappointments elsewhere. The wind of change which Mr Harold Macmillan saw sweeping through Africa at the start of the 1960s obscured the looming tribal conflicts and the shallow roots of democracy in much of that continent, as can be seen from subsequent events in Nigeria and Uganda.

Without bloodshed

But, by and large, Britain has extricated itself skilfully, without bloodshed, and with good intent from its former dominions. In this respect, its last important act of decolonisation may be a great deal more troubling than many of the others. In spite of the safeguards negotiated in the joint declaration with China, the handover of Hong Kong to an avowedly anti-democratic regime will not be a comfortable experience.

The process of disengagement has also left only a few scars on Britain itself. Apart from the

trauma over Suez in 1956, the nation has reacted remarkably smoothly to the retreat from global economic and military power. Its political and social institutions have survived more or less unscathed. Trading and investment patterns have adjusted remarkably quickly to the new political realities.

Valuable network

The Commonwealth is an institution easily maligned. But it still represents a valuable network of political, cultural and technical contacts between Britain and more than 50 former colonies. Few former imperial powers have managed to remain on such good terms with their erstwhile possessions.

That said, decolonisation has not been without a price for Britain. Mr Dean Acheson's famous remark in 1962 that Britain had lost an empire but had failed to find a role still has an uncomfortable resonance. The skill with which the nation retreated from its dominions has not been matched by comparable clarity in the search for a more appropriate niche on the world stage.

The refusal of politicians from all parties to scale back their pretensions has been a powerful contributory factor in Britain's failure to come to terms with its place in the European Union. A partnership with France and Germany has not seemed quite grand enough for a nation with such an illustrious past.

The delusions re-awakened by Mr Margaret Thatcher's victory in the Falklands conflict further slowed the process of adjustment. To admit that Britannia no longer ruled the waves was somehow to invite the charge of being unpatriotic.

The self-deception has delayed a much-needed reappraisal of Britain's place in the world. Such an exercise need not be gloomy. As a still formidable regional power, it has much to offer. Its language, its culture, its inventiveness and the historical ties of empire all have a valuable contribution to make to the international community. Britain also needs, though, to be at ease with itself.

One chance to get it right

Mr Blair is aware that if he reaches Number 10 he will have little time to adjust to the realities of power, says Philip Stephens

How to win, how to govern. How to reassure, how to be radical. These thoughts will be in constant collision in the mind of Tony Blair during the next few months. The electoral odds say that, by May at the latest, Mr Blair will be the first Labour leader for 15 years to enter 10 Downing Street. He promises Britain its first taste of modern social democracy. He can expect only one chance to get it right.

You could forgive him for discounting the general election outcome. Almost from the moment John Major's Conservatives began to divide over Europe after sterling's ejection from the exchange rate mechanism, Britain seems to have been talking for granted the prospect of a Labour government.

Expectation, though, is now edging towards reality. So the questions multiply. The British are a cautious lot: much easier to dislike the Tories than to enthuse about the alternative. Mr Blair seems set to win, but what will he do then? Beneath the clatter of the campaign, he has to prepare for the realities of power.

Mr Blair knows the score. Before the 1992 election, the then shadow employment secretary was asked what Labour should set as its priority if it won. The reply was unhesitating. Grand designs could wait. The real task was to govern competently.

He has moved on since then. Voters expect something more from a would-be prime minister than a promise not to behave like the neighbourhood delinquent. But he has not lost sight of the basic truth. However tough the election campaign, the important test will come in the transition from opposition to government.

The prevailing political fashion says 1996 has not been the best of years for Mr Blair. The leader lost some of his youthful shine. Not so long ago he was every mother's favourite son-in-law. Now, apparently, older women are suspicious. There is said to be something wrong with his hairstyle. The adjective smarmy has gained common currency.

The Conservatives' controversial "devil eyes" poster campaign over the summer re-awakened fears about New Labour's real intentions. Within the next few days this powerful, demonic image will once again fill the nation's advertising hoardings.

There have been troubles within the shadow cabinet. The offer of a referendum on Scottish devolution was handled carelessly. Harriet Harman's choice of a selective school for her son brought out all the Old Labour tensions, personal and political.

John Prescott, the deputy leader, warned Mr Blair against travelling too fast along the modernisation road. Robin Cook, the shadow foreign secretary, manages to remain supportive yet conveniently distant. It has not been hard to imagine the struggles to come in a Labour cabinet.

In reality, these were small setbacks. Mr Blair won the important battles. His personal grip is tighter than any of his post-war predecessors - intentionally so. Mr Blair, who is still only 43, is a keen student of Harold Wilson's administration during the 1960s. He will tell you that Wilson faced a host of pressures to make the wrong decisions almost



from the moment of taking office. To do otherwise was to be accused of betrayal. Mr Blair has got his betrayals in first.

Labour's draft manifesto, published in the summer, was short on bold promises. The few specific pledges, on class sizes in schools or hospital waiting lists, related to the small change of public spending. That was the point. Mr Blair's golden rule is to promise nothing in opposition which he does not expect to be able to deliver in government. Political commentators may crave big ideas. He considers the voters to be realistic.

The manifesto had another purpose. It changed the language of Labour by emphasising individual aspiration, responsibilities as well as rights and equality of opportunity rather than of outcome. Traditionalists still argue about the meaning of socialism, but the party will fight the election on Mr Blair's brand of social democracy. His politics owe as much to this century's reforming Liberals - Lloyd George, Keynes and Beveridge - as to Labour's founding fathers.

One of the commentators' favourite gripes is that his move into the centre ground has left little to choose between the two main parties. But Mr Blair sees this as a compliment. He makes

no apology for buying the economic orthodoxy of the times. He is an avowed admirer of the market economy. He likes to sound tougher on inflation and fiscal probity than the Conservatives.

His speeches are peppered with allusions to the mobility of capital and production. He is comfortable with the supply-side economics which will determine whether a nation prospers in the harsh climate of international competition. The careful courtship of industry is not simply a pre-election ploy. The destruction of the belief that Labour is anti-business is among the principal priorities of a first term in office.

Gordon Brown, the shadow chancellor, is a pivotal ally. The media spotlight often falls on differences between the two men. Mr Brown, pipped at the post by Mr Blair in 1994, still harbours hopes of leading the party.

In the autumn, he was reluctant to concede the offer of a referendum on a single currency. More recently, he has championed the economic case for keeping open the party's remaining options on tax rates for the wealthy. Mr Blair's political instincts, which favour ruling out any post-election increase in the

top rate of income tax, are more likely to prevail.

It is impossible to say what might eventually become of such tensions in government. But, for the present, they belie the strength of the alliance.

It was Mr Brown who ruthlessly stripped Labour of its illusions about tax and spending after the defeat in 1992. At the party conference in October, Mr Brown was applauded for talking tough on inflation and promising tax cuts for the low paid. An earlier speech replacing the goal of an egalitarian society with the narrower aim of equality of opportunity raised scarcely a murmur of protest.

No doubt the politics of economic orthodoxy will cause problems for Labour in government. Before the election, Mr Brown will oblige shadow cabinet colleagues to make still more "tough choices" as between public spending priorities. Beyond extra resources for the unemployed paid, there will be no extra cash in his first Budget.

But the realities of fiscal austerity will still come as a shock to many in the party. It is relatively easy to make theoretical choices after 18 years in opposition. No one gets hurt. Mr Blair may be fond of saying it is harder to operate in opposition than in

government. He will think differently when it comes to making real cuts in real public services.

Economics alone, however, will not decide the success or failure of a Labour administration. As Mr Major has found to his cost, economic prosperity is a necessary but not a sufficient condition for political popularity. And Mr Blair has anyway set himself a higher hurdle.

His promise to work with the grain of flexible markets has been accompanied by a pledge to restore the nation's social fabric through the extension of educational opportunity and reform of the welfare state. Transforming the educational prospects of the unskilled, reform of welfare benefits and a sustained reduction in long-term unemployment will be neither cheap nor easy. Yet without such changes, Mr Blair will have failed. A symmetry between economic efficiency and social cohesion lies at the heart of his political philosophy.

Europe will provide more immediate challenges. Decisions taken in the next few years will shape Britain's relationship with its continental neighbours for a generation.

Within weeks of the election, the new government will be presented with a treaty proposing another overhaul of the European Union. The Labour leader would find it easier to sign than Mr Major. Privately, Mr Blair has already identified the areas where he could strike a bargain with Britain's partners. But the national mood of Euroscepticism will make it hard to concede even a limited further pooling of sovereignty - the more so if the Conservatives oppose any treaty.

The issue of a single currency is more dangerous still. Labour seems certain to keep sterling out of the vanguard of monetary union. A Britain led by Mr Blair will join later only if he can build a cross-party coalition in favour. But standing aside will carry a price, both in terms of confidence in the financial markets and of relationships with other European governments.

At home, a parliament for Scotland, an assembly for Wales and reform of the House of Lords are all promised for the first legislative session of a Labour government. In reality, constitutional reform will depend on the parliamentary arithmetic. Mr Blair would need a sizeable majority and, even then, success could well depend on the extent to which Mr Blair is willing to co-operate with Paddy Ashdown's Liberal Democrats.

And a start on constitutional change will throw up as many questions as it answers. Once committed to the principle of decentralising power, Mr Blair will find it hard to avoid more radical reform of the nation's other political institutions, including the House of Commons.

If he wins, a dozen other issues from Northern Ireland to unrest among the public sector unions will crowd in. Events will allow him precious little time to set his own agenda. After so long in the wilderness, these may be challenges to relish. No one doubts Mr Blair's ambition for office. Narrow political calculation will tell him the next 100 days or so are the most important of his political life. But if he is successful, it will be the 100 days after that which really count.

OBSERVER

All in Black and white

■ Something would have been out of character if Conrad Black, the Canadian newspaper tycoon, had merely quietly shaken the Australian dust from his feet and moved on.

Black recently sold his 24 per cent stake in the Fairfax chain, after a long and ultimately fruitless campaign for more flexible media ownership rules. But Black has now had the last - very long - word, via the pages of Australia's Sydney Morning Herald and Canada's Globe and Mail newspapers.

"Whatever the failings of Canadian, British and American politicians," Black writes, "they never approach the depths of juvenility regularly plumed by Australian politicians."

John Keating, Australia's former PM, comes in for particular mauling. Keating coined the memorable line that allowing Fairfax to fall under either Black or local media magnate Kerry Packer would be like choosing between a thesaurus and a gorilla.

According to Black, Keating "huffed and puffed, schemed, revised recent history and stormed around his office swearing vengeance on his enemies, but on his promises to us sat inert as a sput pudding".

Black says John Howard, the present PM, made no promises on Fairfax ownership and thus broke none. But Howard was sufficiently embarrassed by the issue that Black's lieutenant Dan Colson had to be smuggled into the garage of Howard's Sydney office building. "There were many scenes that were too farcical to be worthy of high office-holders in a serious country," Black claims.

Nevertheless, "I, and we, leave Australia with nothing but good will". Oh really?

A slight kink

■ Klaus Kinkel, who incurred the wrath of British Eurosceptics yesterday, is no stranger to controversy. He's been in deep water with Bundestag back-benchers for his widely perceived mishandling of relations with Iran and China.

But why should the German foreign minister be accident prone? He is, after all, intelligent and engaging, with a well deserved reputation for honesty.

His statement putting the forthcoming UK general election at the top of a list of "fateful decisions for Europe" in 1997 provides a clue. Numbered 705/96, it bears witness to Kinkel's unending desire to transmit his views to a wider public. But by the time his spokesman had appeared to

parry questions on the UK, Kinkel's thoughts on the Czech republic and the Dutch EU presidency had cranked across Bonn's fax machines, as the 706th and 707th press releases to come from his ministry this year.

Amid all the usual stuff - country and rap music on their way out, men will grow sideburns and goates, younger people will lead a revival of the cocktail party, and there will be a boom in ocean cruises, poetry, parking meters that accept credit cards, wearing snowshoes, and professional miniature golf - Long gives up on the biggest guessing game of all.

His 1996 forecast rather underestimates the Dow Jones average; now he declines to make stock market speculations for 1997. "No one can do it," he says.

At last - an honest broker.

Broke but honest

■ It's the time when every media cubby-hole ticks itself out with predictions for the new year. Rather than pretend to the status of Nostradamus, Observer writers watching others make a hash of it.

But at least one futurologist is good enough to apologise for getting it wrong. In Denver, Kim Long has just come out with his 14th annual compendium of

Body and soul

■ Anyone wondering why Anita Roddick's Body Shop chain has been doing so badly in the US - where it continues to make losses - might find an explanation in a full-page advertisement that has just appeared in the New York Times. It announces a half-price sale "on some of your favourite products, which are being discontinued".

Financial Times

100 years ago

Grain Speculation in Germany
Stettin, 30th Dec. - A general meeting, attended by every member of the Corn Exchange here today, unanimously resolved, as a protest against the new law prohibiting speculation in futures, to absent themselves henceforward from the Corn Exchange. Reuter.

Russian Railways
St. Petersburg, 29th Dec. The railway which is being constructed between Samarkand and Andijan, with branches in the direction of Tashkent and New Marghlan, will be completed in 1898. The Vistula line will become the property of the State from the beginning of 1896. A sum of 13,900,000 marks is to be applied during 1897 to the construction of State railways in Finland. Reuter.

50 years ago

Coal Shortage in Portugal
Many privately owned industrial concerns are likely to be seriously affected by the interruption of coal shipments from the United States caused by the strike. The gas and electricity works in Portugal are nevertheless thought to have sufficient supplies to tide them over until the "pipe-line" is refilled. Some delay is expected in the delivery of numerous other products.

Italy announces incentives for purchasers of new cars

By Robert Graham in Rome

Italy's centre-left government yesterday unexpectedly introduced incentives for the purchase of new cars, as part of a package of measures to stimulate the economy.

The scheme covers the next nine months. Owners of cars over 10 years old who have had the vehicle for at least six months will receive a discount when trading it in for a new model. The government will then reimburse producers for giving the discount.

The incentive was announced alongside fiscal measures designed to raise L4,305bn (\$2.81bn) as part of the 1997 budget. Mr Romano Prodi, the prime minister, said his eight-month-old govern-

ment was entering a new phase with the emphasis on fighting unemployment and promoting economic growth.

The decision to introduce a stimulus to Italy's depressed domestic car market came as a surprise even though the industry had been lobbying for this since September. The government has been against the idea, except as part of a European Union initiative.

Fiat, which accounts for 45 per cent of the domestic car market, saw its shares rise L112 to L4,340 as news leaked that a decision was imminent. For new vehicles up to 1,300 cc, the car purchase discount will be a maximum of L1.5m. For larger cars the maximum will be L3m.

Other measures to encour-

age faster growth include a reduction in value added tax from 19 to 10 per cent on residential property repairs, and a VAT cut from 16 to 10 per cent on meat, meat products and processed meats like salami. At the same time, employers will be able to benefit from selective tax breaks to ensure that labour costs are cheaper in the depressed south of the country.

The overall cost of these measures will be L1,787bn. The economy is expected to grow 1.2 per cent next year against the budget's projection of 2 per cent.

The fiscal measures to raise L4,305bn were in line with expectations. Mr Vincenzo Visco, the finance minister, said they would generally be

neutral both on inflation and for the taxpayer. He estimated the effect on inflation would be 0.03 per cent. The bulk of the funds will come from obliging producers of oil, alcohol, methane gas and electricity to accelerate their excise duty payments.

Petrol prices will remain unchanged but the temporary tax of 1.22 per litre, introduced last year to support Italian troops in Bosnia, will remain in force. Cigarette prices will also go up, raising some L500bn, but this price increase will not take effect until the end of February. About L500bn will be raised by a promised crack-down on VAT evasion in the scrap metal business.

World Stocks, Page 26

Yung raises Citic stake

Continued from Page 1

driven by investors' attraction to the company's mainland projects and its strong connections to China.

Reaction was mixed. "It shows management is putting their money where their mouth is," said Mr Hatim Hoosenally, an analyst at JP Morgan in Hong Kong.

Others, however, expressed reservations about the scheme. They said a low price was being paid for the stake and pointed to uncertainties about the terms of sale and the reasons for the sale.

Citic Pacific said relations with its parent would be unaffected, even though Citic Hong Kong's stake will fall from 42 per cent to 28.5 per cent.

Army fails to back Milosevic

Continued from Page 1

be an attempt by the army chief to keep his forces out of Serbia's political turmoil. Protests began six weeks ago against the cancellation of local election results which gave victory to opposition parties.

Yesterday, 5,000 university students tried to march across the Sava River bridge but were blocked by police. Later, tens of thousands of people backing Zajedno (Together), the opposition coalition, massed in Republic Square.

The army helped Mr Milosevic crush demonstrations in 1991, but western observers in Belgrade said it was far from clear if the army would support him this time.

The Yugoslav army has been unhappy for some time at the fall in its status relative to Serbia's numerous and well-equipped police forces.

UK politicians unite to hit at German foreign minister

By David Wighton in London and Peter Norman in Bonn

British politicians of all parties yesterday criticised remarks by Mr Klaus Kinkel, the German foreign minister, suggesting that the British people vote for further European integration in next year's general election.

Mr Kinkel's comments, given in a new year message to a German magazine, prompted accusations that he was trying to meddle in the affairs of another country.

Mr Paddy Ashdown, the pro-European leader of the Liberal Democratic party, attacked the remarks as "unhelpful" and "unwise", while an official at the main opposition Labour party said it was "up to the British people to choose their next government".

Taken aback by the reaction, German foreign ministry officials insisted that Mr Kinkel had not been trying to interfere in UK politics but was merely stressing the importance of Britain's attitude in negotiations on the future direction of the European Union. These talks culminate

Kinkel advice to British voters on EU prompts 'meddling' claim

In next June's conference in Amsterdam where crucial decisions will be taken on reforming EU institutions.

But Eurosceptics in the ruling Conservative party said the comments showed that the UK's EU partners were hoping for a Labour election victory to further their integrationist aims.

An election must take place by mid-May. Among others, Dutch leaders have made it clear they are waiting for a change of government in the hope of obtaining UK agreement to push through reforms.

In yesterday's statement, Mr Kinkel called on Britain to clarify its position on Europe and commit itself to further integration.

"The country must reach a clear decision on its European policy. Britain belongs to Europe. Europe needs Britain," he said.

Mr Kinkel said that "important foreign policy developments lie ahead for Europe and Germany" next year, and put the UK general election at the top of the list.

He stressed the importance of current efforts to reform EU decision-making and reduce individual countries' powers of veto.

"In the EU we need decision-making by majority, effective organisational structures, a foreign and security policy expressed with one voice, and progress in home and legal affairs which citizens can identify with," Mr Kinkel said.

Although such moves are bitterly opposed by Britain's Conservative government, the German foreign ministry insisted Mr Kinkel was not expressing any preference for opposition parties more sympathetic to Europe.

Mr Alistair Darling, the Labour party's spokesman on economic affairs, said the remarks supported Labour's view that Britain must argue its case from the centre of Europe, not from the sidelines.

Defence of euro, Page 2

French jobless rate hits post-war high

Continued from Page 1

policy change is planned. The cabinet meets on Friday to discuss the replacement or re-appointment of two of the nine monetary council members.

The names chosen will be closely scrutinised for any hint that the government might be wavering in its determination to maintain the present franc/D-Mark exchange rate.

Earlier this month, Mr Jean-Claude Trichet, governor of the Bank of France, rejected

calls for a depreciation of the franc, saying it was no longer overvalued against any European currency. His comments followed calls for depreciation or devaluation from Mr Valéry Giscard d'Estaing, the former French president, and two members of the bank's monetary council.

Recent weeks have also brought calls from the business community for controversial measures to instil greater flexibility in the labour market. Mr Jean Gandois, head of

the Patronat, the employers' federation, said the "act of taking people on" should be exempted from formalities.

With a number of big French companies restructuring, many analysts expect more bad news on unemployment next year, in spite of the government's claim to have made job creation its top priority. ABN-Amro Hoare Govett believes unemployment could hit 13 per cent in the spring, "although it should subside later in the year".

THE LEX COLUMN

Red capitalism

The year's biggest Christmas present has surely been bagged by Mr Larry Yung, chairman of Hong Kong conglomerate Citic Pacific. In a deal that puts the capitalist west into the shade, Mr Yung and his senior managers have been allowed to buy 15% per cent of Citic from its Chinese parent company at a 24 per cent discount to the market price. That leaves Mr Yung, who gets the bulk of the shares, sitting on an immediate profit of more than HK\$3bn (\$388.1m).

Citic's description of this arrangement as an incentive scheme is ludicrous, since the managers are getting the rewards without having to jump any performance hurdles. Mr Yung is, in any case, already a substantial investor - with 5 per cent - in Citic and has plenty of options to hone his motivation. But since Citic's share price has risen tenfold in the past six years under his guidance, other shareholders should probably welcome the increase in his personal stake.

That still leaves the question of why the Chinese are selling out at this big a discount. They probably need the money for their own projects and were unable or unwilling to place such a large stake in the market. The only loser, then, would appear to be the Chinese taxpayer. But Citic could suffer too. Its near-100 per cent premium to net asset value is based on the fact that its unrivalled connections on the Chinese mainland have secured it a stream of lucrative investment opportunities there. Whether Beijing, having nearly halved its stake to 26% per cent, will be as keen to supply such goodies in future remains to be seen.

Aegon/Providian

When a Dutch insurer splashes out \$3.5bn on some US businesses, making its case on the grounds of earnings-enhancement, scepticism looks in order. Nonetheless, the logic of Aegon's acquisition of Providian's insurance businesses is real, thanks to the good match of Aegon's existing US businesses with Providian's. There should be plenty of scope for cost-cutting.

Still, it is just as well. At around 10 times last year's earnings, the purchase price may not sound extravagant. But when earnings are growing as slowly as in Providian's insurance businesses, it is no bargain either. Certainly, Providian shareholders could have done

 FTSE Eurotrack 200:
 1974.5 (+16.3)


worse. From their point of view, separating insurance from Providian's sector banking and credit card side makes powerful sense.

More intriguing questions surround the role of Verenging Aegon, the quasi-trust which controls Aegon and effectively renders it unaccountable. The Verenging is selling a big chunk of its stake to Aegon, which will then pass it to Providian shareholders as part of the deal. The Verenging will then buy shares in the market to get its stake back to the original size.

This curious arrangement need not disadvantage Aegon's other shareholders; conceivably, it could even benefit them. Everything depends on the nitty-gritty of the transactions. But to dispel any doubts, Aegon would have been wiser to have taken the really fair route and offer the buy-back to all shareholders at the same price.

UK markets

Which large European stock market matched Wall Street's 25 per cent total return in 1996, after adjusting for currency? And which bond market enjoyed the highest return after Italy, again in common currencies? The surprising answer in both cases is the UK. Conventional wisdom has it that British investors who stayed home in 1996 missed out on raging bull markets elsewhere. After all, UK equities rose only 11 per cent, less than half Wall Street's 25 per cent rise. And gilts were flat none of the euphoria over European monetary union which boosted fringe bond markets in continental Europe crossed the English Channel.

The conundrum is explained by

two phrases: common currencies and total return. Add in sterling's rise - a 9 per cent appreciation versus the dollar in 1996 - and UK equities rose 21 per cent in dollar terms. Take account of Britain's higher yields (nearly 4 per cent compared with 2 in the US) and the markets come out neck and neck. There is a similar story with bonds: high yields and a rising pound produced a 17 per cent total return.

Looking to 1997, high yields could again be good for UK markets. Not only will they boost total returns, there is scope for them to fall, so generating capital gains - something unlikely in most other markets. The strong pound is more of a mixed signal; though some further appreciation could be in store, this will increasingly take its toll on corporate earnings. Nevertheless, UK investors may again do well to stay home.

UK takeovers

So far as it goes, there is nothing wrong with Mr Alistair Defries' weekend call for more upfront disclosure of advisers' share purchases in British takeover battles. But a sufficient response to the problems highlighted by the Northern Electric debacle is not.

Certainly, the Takeover Panel director-general is right that prompt disclosure of any advisers' share purchases is needed. But that alone does not deal with the real problem, which is "friends" being permitted to come to the aid of target companies. Such friends may not be directly financially rewarded for their assistance. But the risk of favours later on, ultimately at the expense of the target's shareholders, is too great to be ignored. After all, most friends have their own shareholders' interests to think about. So pure altruism is unlikely to explain their actions.

Mr Defries' response - that banning friendly assistance could just drive it underground - is a legitimate worry, but not an argument for taking no action. Of course, companies' friends could discreetly break the rules. But they would be at constant risk of being caught out by the other side - if nothing else, quite an embarrassment. Moreover, it would still be an improvement if changing the rules made the practice rarer even if it failed to stamp it out. So Mr Defries should propose something tougher. And if he does not, the full panel should consider overruling him again.

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FT WEATHER GUIDE

Europe today

Snow showers are expected in England and Ireland but Scotland will be mainly dry with sunny spells. The Benelux and Germany will have sunny periods. France will have sunny spells with occasional snow showers in the extreme north-west. Snow is expected over high ground in Spain and there will be rain elsewhere. Most of Portugal will have sunny periods but there will be showers in the south. Northern Italy will have snow but there will be rain in the south. The Balkans will have a mixture of sun and cloud with snow showers. Northern Greece and western Turkey will have rain.

Five-day forecast

An easterly to north-easterly flow will be maintained over western Europe as high pressure persists over the British Isles. Occasional snow is expected during the week. Low pressure areas with associated fronts will cause rain and showers in southern Europe.

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES		Forecast	
Minimum	Maximum	Forecast	Forecast
Abu Dhabi	24	cloudy	2
Accra	24	cloudy	2
Algiers	19	cloudy	2
Amsterdam	10	cloudy	2
Athens	16	cloudy	2
Bahia	24	cloudy	2
Bangkok	24	cloudy	2
Batavia	24	cloudy	2
Bombay	24	cloudy	2
Buenos Aires	24	cloudy	2
Calcutta	24	cloudy	2
Cairo	24	cloudy	2
Cape Town	24	cloudy	2
Cardiff	10	cloudy	2
Cebu	24	cloudy	2
Colon	24	cloudy	2
Dakar	24	cloudy	2
Dallas	24	cloudy	2
Doha	24	cloudy	2
Dubai	24	cloudy	2
Dublin	24	cloudy	2
Edinburgh	24	cloudy	2
Frankfurt	24	cloudy	2
Geneva	24	cloudy	2
Hankow	24	cloudy	2
Hong Kong	24	cloudy	2
Kobe	24	cloudy	2
Kuala Lumpur	24	cloudy	2
London	24	cloudy	2
Los Angeles	24	cloudy	2
Lyons	24	cloudy	2
Madrid	24	cloudy	2
Manila	24	cloudy	2
Melbourne	24	cloudy	2
Mexico City	24	cloudy	2
Miami	24	cloudy	2
Montreal	24	cloudy	2
Moscow	24	cloudy	2
Mumbai	24	cloudy	2
Nairobi	24	cloudy	2
Naples	24	cloudy	2
Nassau	24	cloudy	2
New York	24	cloudy	2
Nice	24	cloudy	2
Osaka	24	cloudy	2
Paris	24	cloudy	2
Perth	24	cloudy	2
Prague	24	cloudy	2
Rangoon	24	cloudy	2
Reykjavik	24	cloudy	2
Rio	24	cloudy	2
Rome	24	cloudy	2
Sao Paulo	24	cloudy	2
Seoul	24	cloudy	2
Singapore	24	cloudy	2
Stockholm	24	cloudy	2
Strasbourg	24	cloudy	2
Sydney	24	cloudy	2
Taipei	24	cloudy	2
Tel Aviv	24	cloudy	2
Tokyo	24	cloudy	2
Toronto	24	cloudy	2
Vancouver	24	cloudy	2
Vienna	24	cloudy	2
Warsaw	24	cloudy	2
Washington	24	cloudy	2
Wellington	24	cloudy	2
Whangarei	24	cloudy	2
Zurich	24	cloudy	2

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IN BRIEF

Repsol rump to be sold in spring

Repsol, the Spanish oil, gas and chemicals conglomerate which was the first of Spain's big state enterprises to tap the markets, will be fully privatised early next year when the government sells its remaining 10 per cent stake in the group. Page 13

China names banks for currency trading
China identified four Shanghai-based international banks which would be authorised to engage in local currency business, opening the way for greater foreign involvement in its banking sector. Page 12

Northern Electric recommends bid
Northern Electric, the north-east of England-based utility, finally recommended that shareholders accept a hostile £782m (£1.3bn) bid from CalEnergy, the US power group, ending one of the most finely-balanced of recent takeover tussles. Page 13

Lombard demerger plans delayed
Lombard's plans to demerge its African trading arm from its mining interests have been delayed by the need to sell the Princess hotel chain. But the demerger's critics claim the European Commission's ban on Anglo-American voting its 28 per cent stake in Lombard during an inquiry into the two companies' control of the world platinum market, is holding up the deal. Page 13

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Chief price changes yesterday	
FRANKFURT (DM)	
Deutsche	866.5 + 15.5
Unib	840 + 17
Proseg	348.5 + 1.5
Reckitt	248 + 11
Deutsche Telekom	278 - 8
Deutsche Bank	485 - 8
NEW YORK (US)	
Deutsche	82.5 + 0.5
Deutsche Bank	24 + 2.4
Deutsche Telekom	22.5 + 2
Deutsche Bank	32 + 2.4
Deutsche Telekom	22.5 + 2
Deutsche Bank	32 + 2.4
LONDON (GBP)	
Deutsche	180 + 17.4
Deutsche Bank	120 + 20
Deutsche Telekom	157.5 + 22.5
Deutsche Bank	244 + 5
Deutsche Telekom	2106 + 25.5
Deutsche Bank	2116 + 25
TOKYO (JPY)	
Deutsche	12.2 + 0.2
Deutsche Bank	11.55 + 1.55
Deutsche Telekom	30.55 + 1.55
Deutsche Bank	10.75 + 1.75
Deutsche Telekom	23.75 + 2.00
Deutsche Bank	5.4 + 0.7
Deutsche Telekom	16.5 + 0.1

Aegon buys Providian operation

Dutch insurance group's shares rise 11% after \$3.5bn US acquisition

By Gordon Cramb in The Hague and Lisa Branson in New York

Shares in Aegon, the Dutch insurance group, shot up 11 per cent yesterday after it announced a \$3.5bn (£2.2bn) acquisition.

The purchase of the insurance operations of Providian, a quoted US company, will make Aegon the biggest insurer in the Netherlands and lift it from 17th to 12th among listed life insurers worldwide.

Providian plans to focus on its consumer lending business. The deal caps a year of dramatic consolidation in western insurance markets, with merger accords between Axa and UAP in France, and Royal and Sun Alliance in the UK.

The purchase is the biggest among a flurry of high value transactions in the Dutch financial sector. Before Christmas, Fortis, a rival insurer, concluded the £12.5bn (£850m) takeover of MeesPierson, the Amsterdam merchant bank. MeesPierson was sold by ABN Amro, the country's biggest banking group, which last month agreed to pay \$1.95bn for Standard Federal Bancorp, a Midwest retail bank.

Yesterday's deal will increase Aegon assets by a fifth, ranking it above Nationale-Nederlanden, the insurance side of ING, the financial group which has long been the Dutch insurance market leader.

Mr Tom Rosencrans, insurance analyst at Robertson-Humphrey in Atlanta, said that while the merger would double the size of Aegon's US operations, the fragmented nature of the US life sector meant it would still have less than 1 per cent of the market.

Providian's operations "are so diverse few people were

interested in acquiring the whole business", he said. As a result, Aegon won it for a low multiple of about nine times projected 1996 earnings.

Acclaim for the intricately funded deal left Aegon shares £110.90 higher in Amsterdam at £110.10.

Aegon is paying \$2.62bn, or \$28 per share, in a mixture of new shares and an 8 per cent tranche of its equity repurchased from Vereniging Aegon, its controlling association. This will follow the separate spin off of Providian Bancorp, the savings and credit side of the Louisville,

Kentucky-based combine.

The deal includes businesses marketing individual life, accident, health and retirement cover, and a property and casualty side.

Mr Kees Storm, Aegon chairman, said the deal would be immediately earnings enhancing on completion next year.

Mr Irving Bailey, Providian chairman, will join Aegon's US board.

By early afternoon Providian shares, which had recently shown strong gains, were off \$1 1/4 to trade at \$51 1/4.

Details, Page 12, Lex, Page 10

Group now has own share capital of FF25bn

France Telecom takes step towards sell-off

By David Owen in Paris

France Telecom will today be transformed into a company with its own capital in an important step towards next year's partial privatisation of the state-controlled operator.

The company will have initial share capital of FF25bn (£4.76bn), comprising 1bn shares with a nominal value of FF25 each.

Mr Francois Fillon, telecommunications minister, said earlier this year that the proportion of capital offered to investors in the first of probably two tranches should be "about 20 per cent". Though the figure was not subsequently confirmed, this suggests the number of shares offered in the initial tranche could be about 300m.



French telecoms minister Francois Fillon says the proportion of capital offered to investors should be "about 20 per cent".

In such a case, the shares would need to be priced at about FF125 each for the finance ministry to meet its aim of raising FF25bn from the first tranche.

Though the flotation could take place as early as April, it is understood that a date between May and mid-June may be more likely. The government has promised to retain a 51 per cent holding in the group, with a maximum of a further 10 per cent reserved for employees.

Under the company's new rules, a government representative will be appointed to ensure that the company's general policies and orientation comply with the government's wishes. A state delegation will also be established to "monitor the economic activity and financial management" of subsidiaries.

The planned public offering should provide the bulk of the French government's expected privatisation receipts for 1997 of FF27bn.

The sale should also give the government an opportunity to get its privatisation drive back on course after a number of high-profile setbacks, notably this month's suspension of the privatisation of Thomson, the electronics group.

Current bank valuations of France Telecom range from FF100bn to FF200bn. The wide range is partly because details have yet to be agreed on interconnection charges for new operators when the French telecoms market is opened to competition in 1998.

If France Telecom's proposals are adopted, new entrants to the market would be faced with high interconnection charges on local calls.

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Crucible plans expansion in Asian markets

By Tim Burt

Morgan Crucible, the UK engineering and specialty materials group, plans to accelerate its international expansion with a series of joint ventures and bolt-on acquisitions in Asia and the Pacific Rim.

The group, one of the world's largest manufacturers of thermal ceramics and specialty carbons, is expected shortly to announce a joint venture in Japan and a further two in China.

Mr Bruce Farmer, chief executive, believes sales in the region could outstrip those in continental Europe, where Morgan Crucible reported profits of £22.4m on turnover of £174.7m last year.

He is also considering spending up to £100m on acquisitions, particularly in thermal ceramics, which contributed £27m to group operating profits of £101.5m in 1995. "The bolt-on route is the way we would go, and we will see two or three deals in the first quarter of 1997," Mr Farmer said.

Morgan Crucible is capitalised at almost £300m.

This year mixed demand in continental Europe is expected to hold pre-tax profits to £100m-£105m (£65m) on sales of almost £320m.

Some industry analysts believe weak sales in countries such as France and Germany have persuaded Morgan Crucible to increase its presence in emerging markets.

The group is also contemplating further investment in eastern Europe, where it manufactures carbons in Hungary and the Czech Republic.

Although it is placing emphasis on carbons and ceramics, Mr Farmer said it would also like to establish a specialty chemicals business in China, where it has four joint ventures.

Existing cash generation and borrowing facilities would enable the group to fund that programme without coming to the market, he added.

The balance sheet is expected to be strengthened in 1997 by the disposal of eight non-core engineering businesses, which were due to be floated this month.

Although the £40m offer was postponed following weakening demand for new issues, Mr Farmer said the sale would proceed when conditions improved.

The group, which has not ruled out a trade sale or management buy-out, expects gearing to fall from 42 per cent to 35 per cent once the transaction has been completed.

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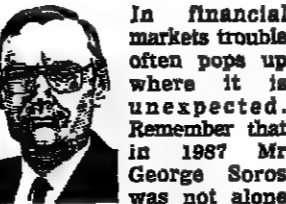
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Barry Riley

Time for the Tokyo stock market's seven-year hitch



In financial markets trouble often pops up where it is unexpected. Remember that in 1987 Mr George Soros was not alone in expecting the crash to take place in Tokyo - it actually happened on Wall Street. Now we all worry about Wall Street, but is Tokyo more vulnerable?

At any rate, the Japanese equity market has been the worst-performing leading market in 1996. The Topix is down 7 per cent and the Second Section Index by 12 per cent, reflecting the gloom in the domestic second-liners.

In dollars, the Topix has 17 per cent. Tokyo underperformed Wall Street by some 32 per cent in 1996 - curious when Japan provided so much of the liquidity which has boosted the global markets.

Early in the year foreign

investors were willing to punt on the possibility of a cyclical recovery in Japan, to the tune of net inflows of \$45bn (£27bn) to the Tokyo stock market in the first six months. But since then the inflows have collapsed, and indeed have turned negative in one or two months. Without the prospect of foreign buying - there may even be some disillusioned selling - the Tokyo market has begun to look panicky on some days.

Tokyo has become the prime speculative stock market, without the support of income (even now, the average dividend yield is only about 0.8 per cent). True, returns on competitive investment assets in Japan are also tiny. But equity investors must have the reasonable

prospect of capital gains to sustain them. When, however, the market reached modestly higher levels in the year it was seen to be capped by potentially vast insurance. Japan is buried in debt but starved of

returns have declined to 2 or 3 per cent, a long way below the actuarial requirement of perhaps 8.5 per cent. The days when Japanese companies could regard the cost of equity as being approximately zero

with the bond market. In most countries stock prices move in parallel with bond prices, albeit with a lag. This is because there is a yield relationship between bonds and equities. In the US, the fall in bond yields since the summer has underpinned the stock market's autumnal strength.

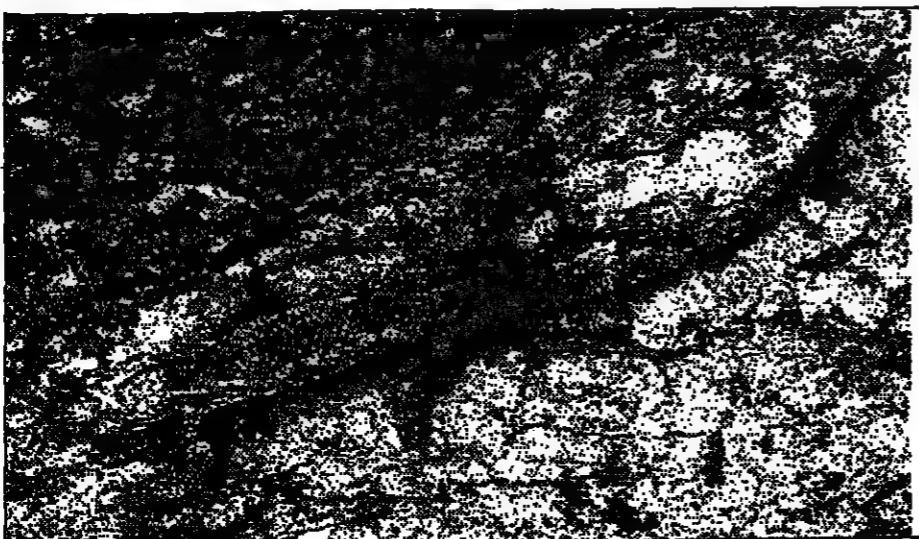
But in Japan equities are not bought for yield, so the argument becomes that when bond yields rise (ie bond prices fall) - signalling anticipated economic recovery - the stock market rises. Lately, bond yields have fallen, economic fears have intensified and stocks have weakened.

Two developments are necessary to stabilise Tokyo's stock market. Prices must fall, per-

haps sharply, to establish a base from which they can move up. Secondly, companies must pay out worthwhile dividends to establish a standard of comparison with domestic bonds and overseas equities.

But such a shake-out would once again threaten Japanese banks and life companies with financial catastrophe. The Japanese culture does not encourage a swift resolution of conflicts. That is why Japan's financial crisis has been dragging on for seven years - since the Nikkei Average hit 39,000, twice today's level.

The crisis is scarcely closer to resolution, except that the burden is gradually being transferred from the private to the public sector. We may not be very close to an acceptance by the Japanese authorities that a stockmarket crash might be part of the solution rather than another manifestation of the problem. But surely the day will come.



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COMPANIES AND FINANCE: INTERNATIONAL

Spring sale planned for rump of Repsol

By Tom Burns in Madrid

Repsol, the Spanish oil, gas and chemicals conglomerate which was the first of Spain's big state enterprises to be fully privatised early next year when the government sells its remaining 10 per cent stake in the group.

The disposal, which is worth some Pta150bn (\$1.1bn) at current market prices, is scheduled for March or April and will fol-

low the sale in February of 21 per cent of state-owned equity in Telefonica. The sale of the telecoms group is expected to be worth about Pta500bn.

The two placements in the first half of the year will spearhead an ambitious privatisation programme drawn up by the centre-right government that could realise more than Pta1,000bn.

Late in 1997 the state is due to reduce its 66 per cent stake in Endesa, the leading

domestic electricity group, to about 50 per cent, and it could also sell its remaining 25 per cent in Argentina, the banking group.

Repsol ushered in the privatisation process in Spain in 1989 by placing 34 per cent of its equity on the market and it has consistently been a favoured blue-chip among international institutions.

When the state reduced its holding from 21 per cent to 10 per cent in February, the issue, which raised Pta140bn,

was 12 times oversubscribed in the UK and eight times in the US.

The government is expected to weight the forthcoming issue towards the domestic retail tranche. Small investors were offered 50 per cent of the shares in February's disposal and the ratio is now likely to be increased to reflect the growing interest in the stock market among domestic savers.

The bias towards the retail tranche is a key feature of

the Telefonica disposal for it will account for 60 per cent of the total offer.

Sept, the state's industrial portfolio company which controls the Repsol stock, has appointed Goldman Sachs of the US, Banco Bilbao Vizcaya and Banco Santander investment joint global co-ordinators for the disposal.

The US bank and BBV, which is a significant Repsol shareholder, have been involved in all the sales of

government equity in the conglomerate and the addition of Santander Investment, the merchant banking unit of the Santander group, underlines the government's intention of aiming the sale towards the home market.

Repsol reported attributable net profits for the January-September period of Pta66.9bn, down 5.6 per cent on the same stage in 1995. The reduced earnings were due to sharply lower profits from its chemicals division.

China looks overseas for funds to build roads

By Tony Walker in Beijing

China will seek \$6.5bn in foreign investment over the next five years to upgrade its national highways. A large proportion of these funds are expected to come from overseas stock markets following the successful listing in Hong Kong last month of Anhui Expressway.

China's announcement that it would step up capital raising abroad for roads coincides with approval by the regulatory authorities for the listing on overseas markets of 38 companies, including three expressway corporations.

Mr Zhang Wensheng, director of the economic planning section of the Ministry of Communications, said overseas markets would provide a "new channel" for funding highway construction.

An estimated \$6.5bn is needed to finance China's highways to 3000 under the current Five-Year Plan. Central and local governments are expected to contribute about 75 per cent with foreign investors accounting for at least 10 per cent of the shortfall.

Investment in toll roads is proving popular among foreign investors because of relatively low construction costs and rates of return on investment of 15-20 per cent.

China's new batch of companies to be listed abroad is biased towards infrastructure and "basic industries" such as steel, chemicals and power companies.

Analysts in Shanghai said the new companies to be listed were generally of "better quality" than the previous 38, 26 of which had already been floated on international markets.

Mr Ben Yang of ING Barings said the latest companies would benefit from more time to modernise their activities and bring accounting and other procedures up to international standards.

"Most of the new companies for listing are in better shape than those in the first batch," he said. The H-share market - mainland companies listed in Hong Kong - rose 4 per cent yesterday on the news of the new listing approvals.

Prominent Chinese companies on the latest list include Sanjin (Three Nine) Pharmaceutical owned by the People's Liberation Army, the highly profitable China World Trade Centre in Beijing and Tianjin Motor, which is being courted by foreign automotive manufacturers, including Toyota.

Chinese companies have already raised \$4.9bn on international markets but the performance of many has disappointed and stock prices have languished.

Yung tightens grip on Citic's reins

Buy pleases market but poses some new questions

Mr Larry Yung, chairman of Citic Pacific, has already established himself as China's most prominent businessman in Hong Kong. Yesterday's announcement that he and a management team would pay HK\$10.9bn (\$US\$1.4bn) for a 15.5 per cent stake in his company tightens his personal grip on Citic Pacific's growing corporate power.

The impact of the news was made greater by the unprecedented nature of the move, the amounts involved, and the standing of the company. Citic Pacific is the local arm of Beijing's flagship investment vehicle and has established itself as the leading mainland-backed business in the territory.

"It is the mother of all investment schemes at one of the biggest local players," said one banker, taken aback at the size of the deal.

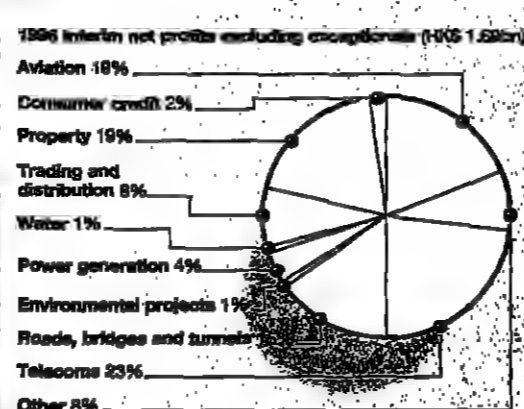
The move leaves questions over the motivation for the purchase, the implications for investors and for relations between Citic Pacific and its Beijing parent. For some observers it marked an effective means of tying top management to the interests of the company and a vote of confidence in its prospects.

Sceptics said it was an expensive Christmas gift for Mr Yung and his colleagues. At the centre of the deal is the Citic Pacific chairman, who will now hold 18.48 per cent of the group. A former engineer, the US-educated Mr Yung has led Citic Pacific from its listing in

Specifically Citic Pacific



Larry Yung



1996 Interim net profits excluding conglomerates (HK\$ 1,528m)

Share price (HK\$)

Source: Citic Pacific, Citic Pacific Management

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1990 to the ranks of Hong Kong's 10 biggest companies. As his company has risen, so has Mr Yung's profile. He has become associated with a flamboyant lifestyle, owning a champion racehorse, sitting as a steward of the Jockey Club, one of Hong Kong's most prestigious institutions, and buying a country estate in England.

Most attention, however, has focused on Mr Yung's business activities and the rise of Citic Pacific. Since 1990, the company's market capitalisation has grown from HK\$5bn to more than HK\$90bn, while net profits have climbed from HK\$333m in 1990 to HK\$3,076m last year.

"If you take the view that Mr Yung and the team he has built are behind this performance then you would be encouraged by the purchase," says Mr Hatim Hossainally of J.P. Morgan in Hong Kong.

Many do take this view. Citic Pacific's share price rose HK\$2 to HK\$45.80 on yesterday's news, taking this year's gain to 73 per cent. "He is a good manager, with good intuition," says one

prominent financier. "And there is little doubt that he is the best-connected businessman in Hong Kong."

These connections include his father, Mr Rong Yiren, China's vice-president, and founder of Citic, the mainland parent. Such contacts have helped secure lucrative infrastructure projects on the mainland and alliances with some of Hong Kong's dominant companies.

In a landmark deal this year Citic Pacific increased its stake in Cathay Pacific from 10 per cent to 25 per cent, consolidating its position behind Swire Pacific on the shareholder register. It also holds 8 per cent of Hongkong Telecom, having reduced its stake from 10 per cent this summer.

Past performance, however, is only part of the debate on yesterday's move. The second part concerns the price being paid by Mr Yung and the prospects for growth.

At a 24 per cent discount to Friday's closing price, the HK\$33 a share being paid seems cheap. "That would appear to be exceptionally generous," says Mr Robert

Medd, sector analyst at Deutsche Morgan Grenfell.

Others caution that the discount has been exaggerated. "The share price has overshoot," says Mr John Godfrey, conglomerates analyst at Kleinwort Benson. He praises the management at the group and its strategy of becoming more active in infrastructure projects. But the clamour for mainland exposure, he argues, has prompted unjustified valuations for so-called red-chip companies.

Whether the price paid is ultimately justified will depend on earnings growth. Mr Hossainally at J.P. Morgan is optimistic, forecasting a rise in net profits from HK\$3.4bn this year to HK\$3.9bn in 1997 and HK\$4.5bn in 1998. The company itself has outlined plans to maintain strong investment in infrastructure projects on the mainland, where it typically achieves a rate of return of 15 per cent.

Most investors are bullish about Citic's prospects, but with a few caveats. One is the increasing competition

in its markets, particularly in the infrastructure sector. Another is the fate of the group's big strategic investments, such as its stake in Hongkong Telecom.

There is also a question mark over relations with its parent company and the Chinese authorities, and whether these will be affected by yesterday's deal.

"One big uncertainty is the reason Citic sold and why it sold so cheaply," says Mr Medd. Others question whether the reduction in the parent company's stake from 43 per cent to 28.45 per cent signals a weakening of its commitment to its Hong Kong offspring.

Citic Pacific said the transaction would not affect its relationship with its parent. Mr Yung has always claimed a free hand in managing his company, and Citic will remain the largest shareholder. Mr Yung, by contrast, has much more at stake in the fortunes of Citic Pacific. And investors and business partners now have a lot more riding on Larry.

John Ridding
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China names banks for currency trading

By Tony Walker in Beijing and John Ridding in Hong Kong

China yesterday identified four Shanghai-based international banks which would be authorised to engage in local currency business, opening the way for greater foreign involvement in its banking sector.

Analysts in Shanghai said the new companies to be listed were generally of "better quality" than the previous 38, 26 of which had already been floated on international markets.

Mr Ben Yang of ING Barings said the latest companies would benefit from more time to modernise their activities and bring accounting and other procedures up to international standards.

"Most of the new companies for listing are in better shape than those in the first batch," he said. The H-share market - mainland companies listed in Hong Kong - rose 4 per cent yesterday on the news of the new listing approvals.

Prominent Chinese companies on the latest list include Sanjin (Three Nine) Pharmaceutical owned by the People's Liberation Army, the highly profitable China World Trade Centre in Beijing and Tianjin Motor, which is being courted by foreign automotive manufacturers, including Toyota.

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INTERNATIONAL NEWS DIGEST

Banc One to buy Liberty Bancorp

Banc One has agreed to buy Liberty Bancorp, an Oklahoma-based bank, in a merger which values Liberty Bancorp at about \$546m. Under the agreement, Liberty Bancorp shareholders will receive 1.175 Banc One shares for each Liberty Bancorp share. Banc One, which has assets of \$98bn, already operates Bank One, Oklahoma, with assets of about \$600m. Liberty Bancorp operates 29 banking offices in Oklahoma City and Tulsa. After the merger, Banc One will control the largest bank in Oklahoma City and one of the top three in the state.

"This is an important affiliation for us in that our stated objective is to be one of the top three banks in the markets we serve," said Mr John McCoy, chairman and chief executive officer of Banc One.

Tracy Corrigan, New York

Mellon Bank expands

Mellon Bank, the US financial services group, has agreed to buy Buck Consultants, a benefits consultancy, in a deal valued at an estimated \$200m. Buck provides pension, health and welfare actuarial services and human resources consulting and administrative services to some 5,000 clients, and reported revenues of \$197m in the year to March 31 1996.

The acquisition is the latest step in Mellon's plan to provide a broad range of financial services for corporate clients.

Tracy Corrigan

Hansa Bryggeri sold

Volvo, the Swedish car and truck maker, and Orkla, the Norwegian food and drink group, yesterday agreed to sell their jointly-owned Norwegian brewer Hansa Bryggeri for Nkr410m (\$63.6m) to a group of Norwegian institutional investors. The two parent companies were forced to sell by the European Union competition authorities as a condition for approval of the merger last year of Pripps, previously owned by Volvo, and Orkla's Ringnes.

The new owners, led by insurers Storebrand and Nordea Liv and Christiania Bank, intend eventually to float Hansa on the Oslo bourse. Their acquisition must first be approved by Coca-Cola, which has a franchise agreement with Hansa.

Hugh Carnegie, Stockholm

Elektrim buys 75% of Emit

Elektrim, a Warsaw-listed company, yesterday agreed to pay 7.8m zlotys (\$2.72m) for a 75 per cent share in Emit, a local electrical machinery producer. Elektrim has also pledged to invest 10m zlotys in the company over the next four years. The sale is one of the last to be approved by Mr Wladyslaw Kaczmarek, who leaves his privatisation portfolio at the newly established treasury and takes over as economy minister at the beginning of the new year.

Elektrim is the country's largest non-bank company. It has a market value of \$630m and is trading on a price earnings ratio of 45.5, three times the average for the market's 83 stocks which are worth a total of \$8.5bn.

Christopher Bobinski, Warsaw

Telkom set to raise prices

Telkom, the Indonesian domestic telecoms carrier, is poised to raise some of its call rates from January 1 after the government said yesterday the average tariffs for domestic telephone services would be increased by 2.64 per cent in 1997.

Indosat, the international telecoms service provider, and Satelindo, the privately-owned satellite telecoms company, will cut international call rates to more than 200 countries by between 8.1 per cent and

INTERNATIONAL CAPITAL MARKETS

Hopes of recovery for Tokyo fade

By Gwen Robinson in Tokyo

Buffeted by the waning fortunes of the yen against the dollar, Japan's stock and bond markets ended the year on Monday somewhat bruised and battered.

In a brief half-day session the Nikkei 225 stock average fell 7.89 points to end the year at 19,361.35, having been the 20,000 line for the fifth consecutive year and well off the year's starting point of 20,618.00.

Bonds, meanwhile, fell further in Monday's session on concerns about the yen's sharp depreciation against the dollar, to a 45-month low of Y116.20 last Friday. The combined weakness of stocks, bonds and currency as domestic investors continue to channel funds overseas is widely interpreted as a reflection of growing doubt among investors about the ability of the economy to retain its fragile growth momentum. Forecasts for the first half of 1997 show fading hopes of recovery in the markets until at least the second half of the year.

The recent declines are due to questions about whether the government overstepped the mark with its relatively austere 1997 draft budget unveiled last week and a scheduled increase in April of the consumption tax, from 3 per cent to 5 per cent, at the same time as ending temporary income tax rebates.

The combined effects of increasing the tax burden and raising public spending are likely to be a slow economic recovery and lower corporate earnings, economists warn.

The ¥77,800bn budget for 1997-98 raises spending by a nominal 3 per cent in the year from next March, much lower than the 5.8 per cent rise in 1995-96, and features a 0.1 per cent reduction in central government public spending and a cut of more than ¥4,000bn in fresh national bond issues from a record ¥21,000bn.

Critics have described the 1997-98 budget as overly reliant on increased tax revenues, and markets have responded with a resounding

vote of no-confidence. Most analysts are now predicting the Nikkei 225 index will stay within the 20,000 to 22,000 range in the first half of the year, while bonds are likely to languish until the yen strengthens sufficiently against the dollar to draw investors looking for foreign exchange gains.

Nonetheless, equities analysts stress the exceptionally cheap valuations of stocks against bonds, which are currently at their lowest levels in more than 20 years.

"The Japanese stock market was soggy in December and is almost certain to remain weak in the first quarter, but valuations are still exceptionally good for this market," says Mr Jason James of James Capel Pacific.

Like many strategists, Mr James argues that the market would rise in reaction to positive economic data, including the recent pick-up in industrial production and other indicators of growth.

"That part of the forecast went according to plan, but the area which has not gone

according to plan has been the tightness of government policy for the next fiscal year. Now, everybody agrees the economy will slow, and almost certainly show negative growth in the lead-up to the consumption tax increase, so it seems unlikely that the Nikkei index can break above the top of its 1996 trading range, 22,750, until at least the third quarter of next year," he says.

Stocks may receive a mild boost from further deregulation of the asset management industry set for early next year, which will enable fund managers to purchase higher proportions of equities for their portfolios. However, this relaxation of rules will also provide greater scope for fund managers to channel funds overseas.

Japan's financial authorities hope sweeping financial reform will draw fresh funds into domestic markets, following concern that Tokyo is losing its status, not only as a major stock-trading centre but also as the place to trade Japanese equities. In the

past five years, the volume of Japanese shares trading in London has tripled to 18 per cent of Tokyo's total trading volume, according to Nomura Research Institute.

Mr Minske Sasaki-Smith of C3 First Boston says the biggest deterrent for investors is the realisation that no further fiscal stimulus measures will be forthcoming.

"The markets have been lacklustre, but there has been some wishful thinking that the government would come up with stimulus measures. But these hopes have been dashed and the market has been left with little positive news," she says.

Another deterrent for foreign investors, which account for about 10 per cent of the equity market's capitalisation and 30 per cent of daily turnover, is the weakening of the yen.

"The yen has lost 9.5 per cent of its value against the dollar from the beginning of January to December 10. 'Japan is the only major market where you could have lost like that', Ms Sasaki-Smith says.

Later, however, the market reversed course and by midday in New York, the Nikkei 225 had risen 11.54 to 19,472.80, with the 30-year Treasury note at 98 1/2 to yield 5.62 per cent, while two-year notes were at 98 1/2 to yield 5.67 per cent. The March 30-year bond future added 1/4 to reach 114 1/4.

The curve that maps the yield spread between the two-year note and the long bond held steady at 76 basis points in early trading.

Trading was expected to be quiet through the start of the new year. Today, the market is close at 2pm New York time and will be closed on New Year's Day.

Record response to IFCI facility

By Conner Middlebrook

The International Finance Corporation of India (IFCI) has raised \$100m through a syndicated loan which saw the largest oversubscription for an Indian financial institution transaction this year.

The IFCI had originally sought \$75m, but when banks made commitments totalling more than \$130m during general syndication, it decided to increase the issue by \$25m.

Banks were given the option of making a five-year bullet loan or a longer-dated amortising loan with an average life of five years.

Either way, the loan carries an interest margin of 75 basis points over Libor. Some \$2.5 per cent of banks opted for the amortising, longer-dated option, indicating that lenders are becoming more comfortable with longer-dated Indian debt.

The transaction was jointly arranged by ANZ Banking Group, which won the mandate for the deal, Banque Paribas in Singapore, and Sakura Finance Asia in Hong Kong. In general syndication, a further 15 banks joined the transaction.

The IFCI is the third largest all-India development finance institution, after the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India.

In Scandinavia, Gjensidige Bank has jointly mandated Den norske Bank and Union Bank of Switzerland to arrange a \$250m revolving credit facility.

The deal has a maturity of five years, carries an interest margin of 17.5 basis points, and a commitment fee of 0.75 basis points.

NEWS DIGEST

German trading volumes jump

Trading volumes on Germany's financial markets rose sharply this year to new all-time highs, Deutsche Börse said yesterday. The securities exchanges generated an overall volume of DM8,985bn, up 11 per cent from 1995. A large contribution to this rise came from share trading, with total turnover rising by 40.5 per cent to DM2,434bn, while bond trading increased only marginally to DM6,550bn, from DM6,354bn the previous year.

Trading activity also rose on the DFB, the Deutsche Börse's derivatives exchange, where 77.3m contracts changed hands, up 33 per cent from the 58.2m contracts traded in 1995. The DFB said its growth had been "considerably stronger than that of other major European derivatives exchanges", and believes it has now replaced Matif, its French rival, as the second largest futures and options exchange in Europe behind Liffe, the London-based derivatives exchange.

In the year to end-November, trading volumes on Matif had fallen 4 per cent from the previous 12 months, while transactions on Liffe had increased by 25 per cent.

Somer Iskander

French fund risk warning

French money market funds, which are offered to investors as an alternative to bank deposits, are not devoid of risk, according to a recent report by Moody's Investors Service, the US credit rating agency. Moody's warned that these funds do not carry deposit insurance, and that their sponsors are often under no legal obligation to compensate investors for booked losses.

The agency cited increased competition from life insurance products and bank deposits, as well as the arrival of foreign competitors, as the main factors that expose French money market funds to risk of loss.

"There is greater likelihood that money fund managers will attempt to generate competitive returns by taking on inappropriate levels of credit or market risk," Moody's said.

Somer Iskander

CME in benchmark switch

In a move it hopes will make its leading contract more palatable to cash Eurodollar traders, the Chicago Mercantile Exchange on January 13 will begin settling its eurodollar and Libor futures and options contracts against the British Bankers' Association rates, the predominant benchmark for settling over-the-counter contracts. The exchange, which currently uses its own survey of banks to settle its futures, said divergence between the BBA rates and the CME settlement rates exposed customers who used futures contracts to hedge their over-the-counter positions to basis risk.

"This move is customer-driven. It demonstrates that the Merc is dedicated to being the most user-friendly and efficient derivatives exchange in the world for customers, members and clearing firms," said Mr Jack Sandner, CME chairman.

Laurie Morse, Chicago

Bund futures ahead despite early close

MARKETS REPORT

By Richard Adams in London and Lisa Brennan in New York

Some bond traders in Paris killed time by playing cards yesterday, as holiday season lethargy kept government bond markets quiet in most centres.

Activity in Europe was confined to the German, Spanish and Italian markets, where a healthy performance by German bunds helped drive prices upwards in the other two markets.

In spite of an early close for the market in Frankfurt, the price of March bund

future contracts settled at 100.50. That was an increase of 0.13 cent at Friday's close. Spanish and Italian futures contracts again outperformed the rest of Europe. Spanish bond contracts were up 0.32 to 112.53, having notched a record mark of 112.80 during the day's trading in Madrid.

Spanish cash bonds were the best performers, with the 10-year benchmark up 0.82 to 112.96. The yield fell to 6.85, giving Spain a spread over Germany of 106 basis points, just two ticks away from its record low spread of 104 set on December 16.

Italian BTP futures were up 0.30 to 128.56. The Italian

cash market became more lively toward the close, ending 0.21 up at 113.55.

Trading in French national bond futures was little moved by news of France's post-war record high level of unemployment, despite a relatively healthy volume of 33,000 contracts exchanged on Matif. The March contract closed at 128.30.

French cash market prices were subdued as dealers awaited Thursday's issue of the new 10-year benchmark OAT, dated April 2007 and paying a 5.5 per cent coupon.

Trading in long UK gilt futures was quiet. The March contract on Liffe fell

to 109 1/2, but on very light volumes.

Selling by hedge funds in Tokyo was said to have driven down the price of Japanese government bond futures for March to 123.97, but they later recovered to 124.30 on Liffe.

US Treasury prices posted modest gains in very quiet trading yesterday morning, despite figures on home sales that were slightly stronger than expected.

Treasury prices slipped in early trading on the release of figures showing that just over 4.04m existing homes were sold in November. Economists had forecast existing home sales of 3.96m.

Later, however, the market reversed course and by midday in New York, the

30-year Treasury note was up 1/4 to 98 1/2 to yield 5.62 per cent, while two-year notes were at 98 1/2 to yield 5.67 per cent. The March 30-year bond future added 1/4 to reach 114 1/4.

The curve that maps the yield spread between the two-year note and the long bond held steady at 76 basis points in early trading.

Trading was expected to be quiet through the start of the new year. Today, the market is close at 2pm New York time and will be closed on New Year's Day.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Coupon	Rate	Price	Yield	Week ago	Month ago
Australia	6.750	110.06	6.5589	-0.340	7.38
Belgium	6.875	107.00	100.2200	-0.180	8.91
Canada	7.000	107.00	107.8800	-0.170	8.96
Denmark	6.000	109.00	105.8200	-0.020	8.54
France	6.500	109.00	103.8112	-0.040	4.80
Germany	6.500	109.00	103.8112	-0.040	4.80
Italy	6.500	109.00	103.8112	-0.040	4.80
Japan	6.500	109.00	103.8112	-0.040	4.80
Netherlands	6.500	109.00	103.8112	-0.040	4.80
Portugal	6.500	109.00	103.8112	-0.040	4.80
Spain	6.500	109.00	103.8112	-0.040	4.80
Sweden	6.500	109.00	103.8112	-0.040	4.80
UK	6.500	109.00	103.8112	-0.040	4.80
US Treasury	6.500	109.00	103.8112	-0.040	4.80

US INTEREST RATES

Rate	Price	Yield	Week ago	Month ago
12m	100.50	6.85	-0.13	7.38
24m	100.50	6.85	-0.13	7.38
36m	100.50	6.85	-0.13	7.38
48m	100.50	6.85	-0.13	7.38
60m	100.50	6.85	-0.13	7.38

BOND FUTURES AND OPTIONS

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

GERMANY

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

UK GILTS PRICES

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

OTHER FIXED INTEREST

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

BUND FUTURES AND OPTIONS (LFFE) DM250,000 points of 100%

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

ITALY

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

SPAIN

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

FRANCE

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

JAPAN

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

US TREASURY BOND FUTURES (CBT) \$100,000 bonds of 100%

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

US TREASURY BOND FUTURES (CBT) \$100,000 bonds of 100%

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

JAPAN

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

OTHER FIXED INTEREST

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

FTSE Actuaries Govt. Securities

Strike	Price	Yield	Week ago	Month ago
120	100.50	6.85	-0.13	7.38
122	100.50	6.85	-0.13	7.38
124	100.50	6.85	-0.13	7.38
126	100.50	6.85	-0.13	7.38
128	100.50	6.85	-0.13	7.38

UK INDEXES

Index-linked							
6	Up to 5 years (2)	203.68	-0.02	203.72	1.47	5.28	Up
7	Over 5 years (10)	198.08	0.00	198.08	1.82	4.71	Over
8	All stocks (12)	195.77	0.00	195.77	1.76	4.66	

Average gross redemption yields are shown above. Coupon Bands: Low 0%–74%; Medium

CURRENCIES AND MONEY

Dollar holds firm in quiet holiday market

MARKETS REPORT
By Graham Rowley

The dollar held firm against the D-Mark and yen in quiet trading on foreign exchange markets yesterday as dealers wound down for the holiday period.

The Swiss franc weakened, continuing the trend of 1996 which has seen the currency depreciate by about 7 per cent against the D-Mark since its peak in the spring.

Sterling held on to the sharp gains it recorded on Friday when it reached its highest level since it was ejected from the European exchange rate mechanism in September 1992.

After opening weaker yesterday, the pound rose during the trading session defying analysts' predictions that Friday's gains would be reversed since these were made when most dealers were on holiday.

The French franc and Italian lira had a relatively good

day against the D-Mark. The pound closed at \$1.6802 against the dollar, barely changed from Friday's close. It finished flat against the D-Mark at DM2.6317.

The dollar ended slightly up against the D-Mark at \$1.5567. It closed at ¥115.88 against the yen, up ¥0.45.

Analysts offered a variety of reasons to explain the dollar's buoyancy yesterday, including buying of the currency by European and Asian central banks and purchases by Japanese importers.

"In this thin market nobody is taking positions against the dollar," said Mr. Paul Horne, chief international economist at Smith Barney in Paris.

"Any European paper dated over two years represents a euro risk," he said. "There is a coincidence of interests between European

Mr. Horne said US asset markets "were continuing, and would continue, to support the dollar's stability or even strength over the next couple of weeks".

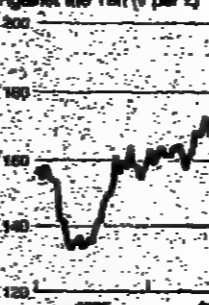
Analysts said the dollar was being supported by companies which imported goods into Japan which were buying the currency ahead of the holidays when foreign exchange markets would be closed.

Mr. Horne said the prospect of the introduction of the European single currency was prompting European and Asian central banks to purchase dollars and dollar-denominated debt.

He said they were buying the currency and US debt with maturities of between two and five years to protect themselves against Euro risk.

"There is a coincidence of interests between European

Swiss Franc
Against the Yen (¥ per \$)



Source: Reuters

central banks' medium-term objectives and the dollar being stable," he said.

Mr. Adrian Schmidt, international economist at Chase in London, said currency markets were yesterday

He said the Dublin summit of European Union ministers in early December had "cemented" the weakness of

the Swiss franc by making Euro appear more probable.

Economists suspected that the Swiss franc - traditionally a safe-haven currency - would have benefited if the summit had triggered uncertainty about the single currency project.

"People are perceiving a greater certainty of Euro happening and the stability pact has reduced the likelihood of a loose currency union," said Mr. Schmidt.

But analysts said the continued weakness of the Swiss franc was desirable given the weakness of the Swiss economy.

The pound benefited from reports of strong Christmas retail sales, which analysts

said increased the likelihood of another interest rate rise early in 1997.

Economists at Goldman Sachs in London predicted that a quarter-point rate increase is likely in the next two months. They forecast rates will rise a further 1 point shortly after the general election, which must take place by mid-May next year.

He said elections, which would probably take place late next year, were likely to hang over the currency. The franc would also be dogged by attempts to agree new

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POUND SPOT FORWARD AGAINST THE POUND

Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day
Europe	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Asia	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Australia	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Belgium	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Denmark	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
France	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Germany	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Greece	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Italy	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Japan	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
South Korea	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sweden	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Switzerland	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
UK	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
USA	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Pound spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day	Dec 30	Closing mid-point	Change on day
Europe	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Asia	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Australia	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Belgium	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Denmark	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
France	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Germany	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Greece	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Italy	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Japan	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
South Korea	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sweden	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Switzerland	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
UK	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
USA	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Dollar spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

CROSS RATES AND DERIVATIVES

Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30
Belgium	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Denmark	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
France	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Germany	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Italy	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Japan	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
South Korea	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sweden	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Switzerland	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
UK	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
USA	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Pound spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

UK INTEREST RATES

Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30
Bank Bill	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Local authority	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Discount	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
UK clearing bank	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Up to 1-3 months	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
3-6 months	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
6-12 months	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Pound spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

THREE MONTH STERLING FUTURES (LFFE) £500,000 points of 100%

Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30
Mar	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Jun	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sep	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Dec	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Mar	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Jun	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sep	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Dec	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Pound spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

THREE MONTH STERLING FUTURES (LFFE) £500,000 points of 100%

Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30	Dec 30
Mar	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Jun	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sep	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Dec	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Mar	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Jun	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Sep	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001
Dec	15.6141	+0.0015	DM	2.6317	+0.0001	DM	2.6317	+0.0001	DM	2.6317	+0.0001

1 Note for Dec 30: Dollar spot rate in the Pound spot table shows only the last three decimal places. Forward rates are not directly quoted by the market but are implied by current interest rates. Sterling spot rate calculated by the Bank of England. Base rates 1997: 10% for Sterling, 5% for Dollar and 6% for Yen. All other rates are implied by the Dollar spot rates derived from the WABSTER CLOSING SPOT RATES. Some values are rounded by the F.T.

THREE MONTH STERLING FUTURES (LFFE) £500,000 points of 100%

Mar	53.01										
Apr	62.60	62.91	+0.02	62.92	62.90	2354	57500				
May	62.72	62.73	+0.03	62.74	62.72	1221	43866				
Jun	62.58	62.62	+0.03	62.63	62.56	342	32667				

also traded on APT. All Open Interest figs. are for previous day.

SHORT STERLING OPTIONS (LIFE) \$500,000 points of 100%

CALL	PUT
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COMMODITIES AND AGRICULTURE

Financial Times writers look back at a hectic year in the commodities markets

Copper turmoil shakes LME to its foundations

It has been the most momentous year for the London Metal Exchange since it was threatened with almost total collapse by the 1985 tin crisis. On June 13, Sumitomo Corporation of Japan said it had sold its copper holdings to the LME, ending its 11-year reign as the world's largest copper trader. The LME had been engaged in a huge battle with some investment funds who had been selling short - betting that

the copper price would fall. His removal from the fight helped copper, which in mid-May had reached a 1996 peak of \$2,715, drop sharply to below \$1,900 a tonne. As LME dealers scrambled to cover margin calls, other metal prices also fell - what many of the traders had available to turn quickly into cash was other traded metals.

The turmoil shook the LME to its foundations but there were no defaults and no member was forced into bankruptcy. Turnover remained high. Whether there will be any long-term damage to the exchange remains to be seen. But it has been given a virtual clean bill of health by the UK senior financial regulator, the Securities and Investments Board.

Ironically, while some other metal prices remained subdued after the scandal, copper rebounded. Stocks remained low and supplies for nearby delivery were tight. For weeks at the end of the year there was a premium of \$100 a tonne or more for copper

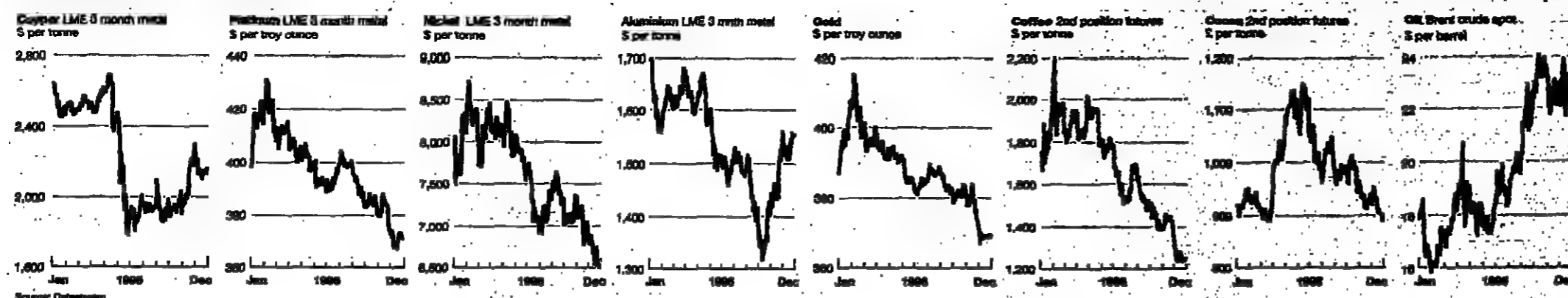
for immediate delivery compared with the three-month price. The LME executive also had to deal with a ferocious technical squeeze in its lead market. This metal, used mainly for batteries, went to a 54-year high in March, forcing the executive to take emergency action to ease the tightness. As the year drew to a close, nickel became the focus of attention as its price dropped to the lowest for 24 years.

The gold price moved strongly upward in the first few weeks to achieve a peak for the year, in US dollar terms, of \$414.80, a troy ounce at the afternoon "fix" in London on February 5. This was its highest level for six years. However, even by the end of that first week in February there were indications that the rally was proving difficult to sustain. Once prices began to slide they hardly stopped. Amid talk of central bank disposals and sales by the International Monetary Fund,

Freezing weather keeps oil price high

The strength evident in oil prices for much of the second half of 1996 has continued right up to the end of December. The price of Brent Blend, the global benchmark, has averaged more than \$20 a barrel for the year, well above the 1995 average of \$17.20. But prices yesterday surged again with the prospect of prolonged freezing weather in Europe. Brent Blend for February delivery was quoted at \$23.70 a barrel in mid-afternoon trading in London, 28 cents up on its close last Friday.

How they performed in 1996



Low stocks bolster coffee Wheat on a roller-coaster ride

Coffee prices in 1996 were, like so many other commodity markets, dominated by low stocks. World stocks started off the year at seven-year lows of around 30m 60kg bags compared with 46m bags at the start of 1995. The low inventories and high consumption led to price volatility which is set to continue into 1997. Mr Lawrence Eagles, analyst at GNI in Brazil, estimates stocks drawn down over 1996 at some 28m bags, leaving a deficit of production over consumption for the second year running of 1.2m bags. "Stocks remain very tight and there should be considerable price volatility next year," said Mr Eagles.

Although prices are not high by historic standards - the market soared to over \$4,000 a tonne in 1994 after frosts destroyed part of Brazil's crop - they are likely to show modest growth until bigger harvests replenish consumer stocks. Cocoa futures on the London Commodity Exchange - which in September became part of Life - fell from \$1,282 a tonne in January to \$912 on news of record production in the Ivory Coast. However, Mr Eagles said he believed there had been several errors made in calcu-

lating the small size of the cocoa crop deficit. "There is considerable opportunity for the cocoa deficit to be revised upwards and that could lead to a sharp rise in price in 1997," he said. Sugar prices were depressed for much of the year and look set to remain so as production remains in excess of demand. Prices on New York's Coffee, Sugar and Cocoa Exchange started the year at 11 cents a lb and ended at more or less the same level.

This year has been a rather shocking one for the world's grain markets, with wheat prices hitting their highest level in recent memory and then dropping back by half as world grain stocks began to rebuild again after the northern hemisphere harvest. In the US, farm prices for wheat in the Kansas City area hit \$7.46 a bushel in May, as a drought in the southern plains limited winter wheat harvests. However, robust spring wheat plantings and an expansion in world wheat production had cooled the market by November.

Analysts expect US wheat prices at the farm gate to cluster just above \$5 a bushel next year, as world wheat stocks continue to rebuild. "Last year was something of a blip," said Mr Keith Collins, chief economist for the US Department of Agriculture. "We had a 60-year low in grain stocks in relation to use, and we don't expect to see that again soon." US millers, who still find domestic milling quality wheat scarce even as world supplies expand, should get relief next year. Forecasters say that the autumn-planted wheat in southern plains has received ample moisture this winter, and predict a near-record number of harvested acres this spring.

The year just ending also yielded a major revision in US farm policy, with "freedom to farm" legislation giving growers flexibility to plant what they wanted and still receive generous government supplements. The first year of the programme saw farmers from the south switching en masse from rice and cotton plantings to seedling corn and soybeans. US cotton acres fell from 17m in 1995 to 14m this year, and is projected to dip further in 1997 as a result of the policy changes. Many US grain farmers are also livestock producers, and meat price cycles were as volatile as grain in 1996. Feeder cattle prices hit a low of \$54 a hundredweight at the end of April as farmers slaughtered herds in response to rising feed costs. Declining herd numbers boosted prices to about \$70 in the autumn, a tremendous percentage increase in one season, and a move that should put the average price for the year above \$60.

COMMODITIES PRICES

BASE METALS									
LONDON METAL EXCHANGE									
(Prices from Amalgamated Metal Trading)									
ALUMINIUM, 99.7 PURITY (\$ per tonne)									
Cash	1511.5-15.5	1545-44							
Previous	1516.5-17.5	1545-44							
High/Low	1511	1557/1541							
AM Official	1511.5-15.5	1545-44							
Kerb close	1511.5-15.5	1545-44							
Open int.	238,894	1551-52							
Total daily turnover	33,722								
ALUMINIUM ALLOY (\$ per tonne)									
Cash	1380-45	1387-90							
Previous	1380-70	1390-92							
High/Low	1380	1390/1387							
AM Official	1380-45	1387-90							
Kerb close	1380-45	1387-90							
Open int.	5,098	1392-95							
Total daily turnover	1,010								
LEAD (\$ per tonne)									
Cash	984.5-5.5	988.5-9							
Previous	712.5-13.5	713-14							
High/Low	702	713/707							
AM Official	702-703	706-05							
Kerb close	702-703	706-05							
Open int.	38,764	705-6							
Total daily turnover	8,291								
NICKEL (\$ per tonne)									
Cash	8305-10	8405-10							
Previous	8405-10	8505-10							
High/Low	8405	8470/8395							
AM Official	8280-90	8395-90							
Kerb close	8405-10	8470/8395							
Open int.	48,582								
Total daily turnover	14,908								
ZINC (\$ per tonne)									
Cash	1048.5-9.5	1058-59							
Previous	1040.5-11.5	1072-73							
High/Low	1045	1074/1068							
AM Official	1044-45	1067-67.5							
Kerb close	1044-45	1067-67.5							
Open int.	78,299								
Total daily turnover	22,409								
COPPER, grade A (\$ per tonne)									
Cash	2218-23	2128-29							
Previous	2220	2132/2122							
High/Low	2218-23	2128-29							
AM Official	2217-18	2128-29							
Kerb close	2217-18	2128-29							
Open int.	157,025								
Total daily turnover	39,593								
LME CLOSING 24H RETRACTION									
1 month	-1.15	5 months	-3.4						
2 months	-1.14	12 months	-3.51						
3 months	-1.08								
PRECIOUS METALS									
LONDON SILVER MARKET									
(Prices supplied by N M Rothschild)									
Gold (Troy oz) \$ price									
Cash	389.20-389.40								
Opening	389.20-389.40								
Morning fix	389.20	218.76	420.85						
Attention fix	389.25	218.36	420.83						
Day's High	389.80-370.00								
Day's Low	389.10-389.50								
Previous close	389.40-389.70								
Low Ldn Mean Gold Lending Rates (US \$)									
1 month	-1.15	5 months	-3.4						
2 months	-1.14	12 months	-3.51						
3 months	-1.08								
SILVER (\$ per 100g)									
Cash	299.10	US 25 equiv.							
Spot	299.10	494.00							
1 month	299.30	494.00							
5 months	297.70	500.00							
1 year	306.75	512.25							
Gold Coins									
Cash	385-370	218-219							
Kruggerand	385-370	218-219							
Maple Leaf									
New Zealand	85-89	51-53							

JOTTER PAD

MEAT AND LIVESTOCK									
LIVE CATTLE CME (\$0,000/cwt)									
Cash	86.875-1.075	86.875	87.875	33,729					
Previous	86.875-1.075	86.875	87.875	33,729					
High/Low	86.875	86.875	87.875	33,729					
AM Official	86.875	86.875	87.875	33,729					
Kerb close	86.875	86.875	87.875	33,729					
Open int.	86.875	86.875	87.875	33,729					
Total daily turnover	86.875	86.875	87.875	33,729					
LEAN HOGS CME (\$0,000/cwt)									
Cash	73.250-2.000	73.250	73.250	2,498					
Previous	73.250-2.000	73.250	73.250	2,498					
High/Low	73.250	73.250	73.250	2,498					
AM Official	73.250	73.250	73.250	2,498					
Kerb close	73.250	73.250	73.250	2,498					
Open int.	73.250	73.250	73.250	2,498					
Total daily turnover	73.250	73.250	73.250	2,498					
PORK BELT CME (\$0,000/cwt)									
Cash	80.425-2.000	80.425	80.425	58					
Previous	80.425-2.000	80.425	80.425	58					
High/Low	80.425	80.425	80.425	58					
AM Official	80.425	80.425	80.425	58					
Kerb close	80.425	80.425	80.425	58					
Open int.	80.425	80.425	80.425	58					
Total daily turnover	80.425	80.425	80.425	58					

CROSSWORD

No.9,262 Set by ARMONIE

1 Across

1 Down

2 Across

2 Down

3 Across

3 Down

4 Across

4 Down

5 Across

5 Down

6 Across

6 Down

7 Across

7 Down

8 Across

8 Down

9 Across

9 Down

10 Across

10 Down

11 Across

11 Down

12 Across

12 Down

13 Across

13 Down

14 Across

14 Down

15 Across

15 Down

16 Across

16 Down

17 Across

17 Down

18 Across

18 Down

19 Across

19 Down

20 Across

20 Down

21 Across

21 Down

22 Across

22 Down

23 Across

23 Down

24 Across

24 Down

25 Across

25 Down

كلمة من الجواب

1000

Year	1990 Projection (%)	2000 Projection (%)
1950	7.0	7.0
1960	8.0	8.0
1970	9.0	9.0
1980	10.0	10.0
1990	11.0	11.0
2000	12.0	12.5
2010	13.0	13.5
2020	14.0	14.5
2030	15.0	15.5
2040	16.0	16.5
2050	17.0	18.0

كتاب من الاصل

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

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Company	Price
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BANKS, MERCHANT

Company	Price
...	...

BANKS, RETAIL

Company	Price
...	...

BREWERY, PUBS & REST

Company	Price
...	...

BUILDING & CONSTRUCTION

Company	Price
...	...

BUILDING MATS. & MERCHANTS

Company	Price
...	...

CHEMICALS

Company	Price
...	...

CHEMICALS - Cont.

Company	Price
...	...

DISTRIBUTORS

Company	Price
...	...

DIVERSIFIED INDUSTRIALS

Company	Price
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The Financial Times plans to publish a Survey on

Merseyside

on Thursday, April 3

● The FT is circulated in 140 countries worldwide, with a readership in excess of one million people ● The Weekly FT is read by 129,000 business people in significant organisations in Great Britain ● More senior UK business people in significant organisations read the FT than any other National Daily Newspaper ● 48% of Europe's top Chief Executives read the FT ● 93% of Chief Executives of top companies in Britain and Ireland read the FT.

For full editorial synopsis and details of available advertisement positions to reach these audiences please contact Pat Lister, Financial Times, Alexandra Buildings, Queen Street, Manchester M2 5LF Tel: 0161 834 9381 Fax: 0161 832 9248 Source: BBS 1995 and Chief Executives in Europe 1995

FT Surveys

ENGINEERING - Cont.

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المرسى

LONDON STOCK EXCHANGE

Buoyant Footsie closes at new all-time high

MARKETS REPORT
By Steve Thompson,
UK Stock Market Editor

London's equity market delivered a surprisingly buoyant performance on the penultimate trading session of the year, with the FTSE 100 hitting new intraday and closing records.

And there was a further pleasant surprise for dealers at the level of turnover in equities on what had been expected to be a quiet, featureless trading day.

Some 429.9m shares had changed hands by 4.30pm, with non-Footsie stocks accounting for 53 per cent of that figure.

With the head count at many big dealing rooms said to have been at 80 per cent, those manning the desks were kept busy until the late afternoon.

At the close of a busy session, the FTSE 100 was 24.7 up at a new closing and intraday peak of 4,115.7.

Good news in the leading stocks spilled over into the rest of the market, with the FTSE 250 index finally 14.3 better at 4,484.8, closing the gap on its all-time high of 4,568.6 reached in April this year. And the SmallCap index rose 7.6 to 2,176.8, compared with its peak of 2,244.30, attained in June.

The stimulus for London came

from across the Atlantic again, where last Friday's record close on the Dow Jones Industrial Average was followed by another sharp rise at the outset of trading yesterday.

Up 14 points on Friday, the Dow put on a further 25 points shortly after the opening yesterday, a move which gave European markets a substantial lift in the arm after a generally firm morning session.

The equity market's move to new peaks was more impressive given that the gilts market had to endure a difficult trading session, edging forward during the morning before coming off late in the session as US Treasury bonds

tricked easier following a higher-than-expected 1.8 per cent increase in US home sales. The home sales numbers offset what were seen as neutral leading indicators for November.

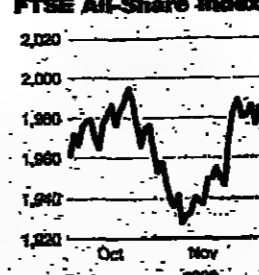
London's good start came amid a flurry of New Year tips from the financial press and leading brokers. And sentiment was lifted by widespread publicity given to a series of bullish forecasts for the FTSE 100 in 1997.

Of these, NatWest is the most confident of the leading brokers, forecasting a 1997 year-end close of 4,600 for the Footsie. NatWest's equity market strategists say the market is "well supported by strong GDP growth, which will

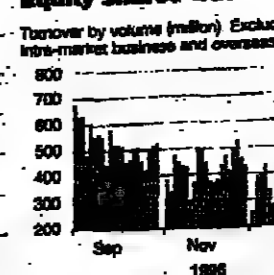
feed through into continuous robust performance on earnings and dividends." NatWest expects a new Labour government to bring inflation back below 3 per cent, which would provide a spur to the gilts market.

Among the main beneficiaries of the New Year recommendations was British Aerospace, one of NatWest's top 15 stocks for the year and one of the best performing FTSE 100 stocks during 1996. Other winners yesterday included BTR, Pearson and United Utilities, the latter following a report that the government has abandoned plans for wholesale competition across the industry.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4115.7	+24.7
FTSE 250	4484.8	+14.3
FTSE 100/250	2042.2	+1.1
FTSE All-Share	2011.74	+10.58
FTSE All-Share yield	3.75	3.77

Best performing sectors

Diversified Inds	+1.8
Oil Integrated	+1.3
Tobacco	+1.1
Mineral Extraction	+1.1
Alcoholic Beverages	+1.0

Worst performing sectors

Telecommunications	-1.0
Property	-0.3
Utilities	-0.3
Food Producers	-0.1
Insurance	-0.1

EQUITY FUTURES AND OPTIONS TRADING

Derivatives trading recovered from its dismal pre-Christmas torpor but remained below average daily levels, writes Peter John.

The March contract on the FTSE 100 index hit a new high yesterday but the gains

were merely a reflection of a year-end squeeze and not accompanied by serious turnover.

March began trading at 4,104 and moved steadily forward to hit 4,140 - a new high for the contract - during the day, it retreated

partially in the late afternoon on the back of some slightly disappointing economic data from the US.

However, by the close March was still up at 4,130, a premium of some 15 points to the underlying cash market. At that level the

contract was within the fair value range estimated by analysts at between 15 and 21 points. Fair value is the premium that takes into consideration dividend flow and financing costs on the underlying Footsie stocks.

In traded options, volume rose to 22,864, low by the standards of the yearly average but a definite improvement on the 4,917 contracts which changed hands during Friday's curtailed trading sessions.

Calls outnumbered the more bearish put trades by 11,765 to 10,899. Among individual stocks, British Aerospace was the most heavily traded with 1,327 lots dealt, followed by GEC with 548.

FTSE 100 INDEX FUTURES (LJFFE) £25 per full index point (AP)									
	Open	Sett	Price	Change	High	Low	Est. vol	Open int.	
Mar	4104.0	4130.0	+31.0		4140.0	4104.0	6636	53007	
Jun	4154.0	4154.0	+33.0				0	2594	

FTSE 250 INDEX FUTURES (LJFFE) £10 per full index point									
	Open	Sett	Price	Change	High	Low	Est. vol	Open int.	
Mar	4484.0	4484.0	+13.0				0	4800	

FTSE 100 INDEX OPTION (LJFFE) £1114 £10 per full index point									
	Open	Sett	Price	Change	High	Low	Est. vol	Open int.	
Mar	4104.0	4130.0	+31.0		4140.0	4104.0	6636	53007	

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	Open	Sett	Price	Change	High	Low	Est. vol	Open int.	
Mar	4484.0	4484.0	+13.0				0	4800	

TRADING VOLUME

Major Stocks Yesterday

	Vol.	Closing	Day's	Change
ASDA Group	17,500	123.0	+1.0	
British Airways	1,200	10.0	+0.1	
British Telecom	1,200	10.0	+0.1	
British Petroleum	1,200	10.0	+0.1	
British Steel	1,200	10.0	+0.1	
British Sugar	1,200	10.0	+0.1	
British Water	1,200	10.0	+0.1	
British Airways	1,200	10.0	+0.1	
British Telecom	1,200	10.0	+0.1	
British Petroleum	1,200	10.0	+0.1	
British Steel	1,200	10.0	+0.1	
British Sugar	1,200	10.0	+0.1	
British Water	1,200	10.0	+0.1	
British Airways	1,200	10.0	+0.1	
British Telecom	1,200	10.0	+0.1	
British Petroleum	1,200	10.0	+0.1	
British Steel	1,200	10.0	+0.1	
British Sugar	1,200	10.0	+0.1	
British Water	1,200	10.0	+0.1	

Funds buy into Lasso

Lasso, the oil exploration and production group, fell back on the upward pressure of a recent buying spree was exhausted.

Schroder Investment Management announced it had increased its stake to 13.02 per cent. The steady purchase of almost 10m shares over the past four and a half months has left Schroders as the biggest stakeholder in Lasso. It has overtaken PDM, which, at the last count on September 18, had 12.98 per cent.

The buying has taken place during a period of exceptional performance for the stock and the sector. Oils have constituted the strongest performing sector over the past year as stocks have surged in response to a boom in the underlying oil price and a wave of consolidation among smaller exploration stocks.

Lasso has benefited specifically from optimism about drilling operations in Algeria combined with the occasional whiff of takeover speculation. Since Schroders started its latest buying spree Lasso has gained more than 20 per cent. The shares closed steady at 239p.

BAe boosted

British Aerospace topped the list of Footsie performers

NEW 52 WEEK HIGHS AND LOWS

	High	Low
ASDA Group	123.0	122.0
British Airways	10.0	9.9
British Telecom	10.0	9.9
British Petroleum	10.0	9.9
British Steel	10.0	9.9
British Sugar	10.0	9.9
British Water	10.0	9.9
British Airways	10.0	9.9
British Telecom	10.0	9.9
British Petroleum	10.0	9.9
British Steel	10.0	9.9
British Sugar	10.0	9.9
British Water	10.0	9.9
British Airways	10.0	9.9
British Telecom	10.0	9.9
British Petroleum	10.0	9.9
British Steel	10.0	9.9
British Sugar	10.0	9.9
British Water	10.0	9.9

LIFE EQUITY OPTIONS

	Call	Put
ASDA Group	123.0	122.0
British Airways	10.0	9.9
British Telecom	10.0	9.9
British Petroleum	10.0	9.9
British Steel	10.0	9.9
British Sugar	10.0	9.9
British Water	10.0	9.9
British Airways	10.0	9.9
British Telecom	10.0	9.9
British Petroleum	10.0	9.9
British Steel	10.0	9.9
British Sugar	10.0	9.9
British Water	10.0	9.9

RISKS AND FALLS YESTERDAY

	Rise	Fall	Stale
ASDA Group	123.0	122.0	
British Airways	10.0	9.9	
British Telecom	10.0	9.9	
British Petroleum	10.0	9.9	
British Steel	10.0	9.9	
British Sugar	10.0	9.9	
British Water	10.0	9.9	
British Airways	10.0	9.9	
British Telecom	10.0	9.9	
British Petroleum	10.0	9.9	
British Steel	10.0	9.9	
British Sugar	10.0	9.9	
British Water	10.0	9.9	

TRADITIONAL OPTIONS

000	60	65%	0.33	77%	22	2
000	27%	30	54%	24	45%	
and	300	14	22%	34%	94	21
0	300	4	10	13	30%	41
Playco	240	22%	20	35%	24	8
7)	300	20	16%	21%	11	16%
0	330	25%	26	40%	23	9
3)	300	10	17%	26	15%	23
Bleach	300	13%	18%	21	3%	2
77%)	220	4	9	11	14%	21%
in	Feb	-	-	Feb	-	-

Have your FT hand

Bel

NASDAQ NATIONAL MARKET

4 pm class December

Stock	Chg.	Pf	Stk	Hgh	Low	Last	Clas	Stock	Chg.	Pf	Stk	Hgh	Low	Last	Clas	Stock	Chg.	Pf	Stk	Hgh	Low	Last	Clas
Accord C	213.280	27%	24%	25%	-11%			Accord C	213.280	27%	24%	25%	-11%			Accord C	213.280	27%	24%	25%	-11%		
Accord C	82%	3%	4%	3%	-4%			Accord C	82%	3%	4%	3%	-4%			Accord C	82%	3%	4%	3%	-4%		
Accord C	33.500	25%	22%	24%	-1%			Accord C	33.500	25%	22%	24%	-1%			Accord C	33.500	25%	22%	24%	-1%		
Accord C	47.650	45%	30%	34%	-1%			Accord C	47.650	45%	30%	34%	-1%			Accord C	47.650	45%	30%	34%	-1%		
Accord C	48.430	38%	31%	37%	-1%			Accord C	48.430	38%	31%	37%	-1%			Accord C	48.430	38%	31%	37%	-1%		
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Accord C	16.16	25	13	32%	34%			Accord C	16.16	25	13	32%	34%			Accord C	16.16	25	13	32%	34%		
Accord C	220.350	30	37%	37%				Accord C	220.350	30	37%	37%				Accord C	220.350	30	37%	37%			
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Hochlager	8502	2 1/2	0 1/2	2	-1/2	Diels	18 2003	17 1/2	17 1/2	17 1/2	
Heldm	12	0 1	12 1/2	12 1/2	12 1/2	Odenia A	27 201	17 1/2	15 1/2	17 1/2	-1/2

2455	11-4	11-2	11-2
2456	3	2 $\frac{1}{2}$	2 $\frac{1}{2}$

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هكذا من الأصل